Sumitomo Mitsui Banking Corporation

(incorporated under the laws of Japan with limited liability)

€1,250,000,000

Fixed To Floating Rate Subordinated Bonds due 2014

The €1,250,000,000 Fixed to Floating Rate Subordinated Bonds due 2014 (the ''Bonds'') of Sumitomo Mitsui Banking Corporation (''SMBC'') will be issued in registered form in the denomination of €50,000 and higher in integral multiples of €1,000, subject to the terms and conditions of the Bonds set out herein (the ''Conditions'').

Unless previously redeemed or purchased and cancelled the Bonds will be redeemed on the Floating Rate Interest Payment Date falling on or nearest October 27, 2014 at their nominal amount. Interest on the Bonds is payable annually in arrear on October 27 of each year, commencing October 27, 2004 until October 27, 2009, and semi-annually in arrear on April 27 and October 27 of each year, commencing April 27, 2010 and on the maturity date or redemption date, as described in Condition 4.

Payment of principal and interest by SMBC in respect of the Bonds shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Japan or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law, as further described in Condition 7.

The Bonds will initially be represented by a registered certificate (the ''Global Certificate''), registered in the name of a common depositary (or its nominee) on behalf of Euroclear Bank S.A./N.V. as operator of the Euroclear System (''Euroclear'') and Clearstream Banking, société anonyme (''Clearstream, Luxembourg''), and will be deposited with such common depositary on or about July 27, 2004. The Global Certificate is exchangeable for definitive certificates in certain limited circumstances set out therein. See ''Summary of Provisions relating to the Bonds while in Global Form.''

Application has been made to the Financial Services Authority (the ''UK Listing Authority'') in its capacity as competent authority under the Financial Services and Markets Act 2000 (the ''FSMA'') for the Bonds to be admitted to the official list of the UK Listing Authority (the ''Official List'') and to the London Stock Exchange plc (the ''London Stock Exchange'') for such Bonds to be admitted to trading on the London Stock Exchange's market for listed securities. Admission to the Official List of the UK Listing Authority together with admission to trading on the London Stock Exchange's market for listed securities constitute official listing on a stock exchange.

A copy of this document, which comprises listing particulars, has been delivered to the Registrar of Companies in England and Wales as required by Section 83 of the FSMA.

This Offering Circular does not constitute an offer of, or solicitation of an offer to buy or subscribe for the Bonds in any jurisdiction in which such offer or solicitation is unlawful. In particular, the Bonds have not been and will not be registered under the U.S. Securities Act of 1933 (the ''Securities Act'') and, subject to certain exceptions, Bonds may not be offered, sold or delivered within the United States or to U.S. persons. For a description of certain further restrictions on offers and sales of Bonds and distribution of this Offering Circular see ''Subscription and Sale''.

See "Investment Considerations" for a discussion of certain factors that should be considered in connection with an investment in the Bonds.

Joint Lead Managers and Joint Bookrunners

Goldman Sachs International **UBS Investment Bank** **Daiwa Securities SMBC Europe**

Senior Co-Lead Manager

Morgan Stanley

Co-Managers

Deutsche Bank **JPMorgan**

Offering Circular dated July 21, 2004

This Offering Circular comprises listing particulars given in compliance with the listing rules made under Section 74 of the FSMA by the UK Listing Authority for the purpose of giving information with regard to SMBC, SMBC and its subsidiaries and affiliates taken as a whole (the "SMBC Group") and the Bonds.

SMBC accepts responsibility for the information contained in this document. To the best of the knowledge and belief of SMBC (which has taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Any reference in this Offering Circular to listing particulars means this Offering Circular excluding all information incorporated by reference. SMBC has confirmed that any information incorporated by reference, including any such information to which readers of this Offering Circular are expressly referred, has not been and does not need to be included in the listing particulars to satisfy the requirements of the FSMA or the listing rules made under Section 74 of the FSMA by the UK Listing Authority. SMBC believes that none of the information incorporated therein by reference conflicts in any material respect with the information included in the listing particulars.

SMBC, having made all reasonable enquiries, confirms that this Offering Circular contains all information with respect to SMBC, the SMBC Group and the Bonds which is material in the context of the issue and offering of the Bonds, the statements contained in it relating to SMBC, the SMBC Group, Sumitomo Mitsui Financial Group, Inc. ("SMFG") and SMFG and its subsidiaries and affiliates taken as a whole (the "SMFG group") are in every material particular true and accurate and not misleading, the opinions and intentions expressed in this document with regard to SMBC, the SMBC Group, SMFG and the SMFG group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, there are no other facts in relation to SMBC, the SMBC Group, SMFG, the SMFG group or the Bonds the omission of which would, in the context of the issue and offering of the Bonds, make any statement in this document misleading in any material respect and all reasonable enquiries have been made by SMBC to ascertain such facts and to verify the accuracy of all such information and statements.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of SMBC or the Managers (as defined in "Subscription and Sale") to subscribe or purchase, any of the Bonds. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by SMBC and the Managers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of Bonds and the distribution of this Offering Circular, see "Subscription and Sale".

No person is authorised to give any information or to make any representation not contained in this Offering Circular and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of SMBC or the Managers. The delivery of this Offering Circular at any time does not imply that the information contained in it is correct as at any time subsequent to its date.

The Bonds have not been and will not be registered under the Securities Act and, subject to certain exceptions, Bonds may not be offered, sold or delivered within the United States or to U.S. persons.

The Bonds have not been and will not be registered under the Securities and Exchange Law (as defined in "Subscription and Sale") and are subject to the Special Taxation Measures Law (as defined in "Subscription and Sale"). The Bonds may not be offered, sold or delivered in Japan or to, or for the benefit of, residents of Japan or Japanese corporations, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan (see "Subscription and Sale"). Interest payments on the Bonds generally will be subject to Japanese withholding tax unless the holder establishes that the Bonds are held by or for the account of a holder that is not an individual resident of Japan or a Japanese corporation for Japanese tax purposes or is a Japanese designated financial institution described in Article 6 of the Special Taxation Measures Law (see "Taxation — Japan").

In addition there are further restrictions on offers and sales of the Bonds in other jurisdictions, including the United Kingdom, Singapore, The Netherlands and Italy, see "Subscription and Sale".

Unless otherwise specified or the context requires, references to "euro", "Euro" and "€" are to the currency of those member states of the European Union which are participating in European Economic and Monetary Union pursuant to the Treaty on European Union, references to "U.S.$", "dollars" and "U.S. dollars" are to United States dollars and references to "yen" and "¥" are to Japanese yen.

In this Offering Circular, where information is presented in thousands, millions, billions or trillions of yen or in thousands, millions or billions of dollars, amounts of less than one thousand, one million, one billion or one trillion, as the case may be, have been omitted or rounded. Accordingly, the total of each column of figures may not equal to the total of the individual items.

Any reference in this Offering Circular to the "FSA" is to the Japanese Financial Services Agency.

References in this Offering Circular to "SMBC" are to the former Sumitomo Mitsui Banking Corporation (the "Former-SMBC") in respect of dates, or periods, prior to March 17, 2003 and to THE WAKASHIO BANK, LTD. ("Wakashio Bank") together with the Former-SMBC (which was merged into Wakashio Bank) in respect of dates, or periods, on or after March 17, 2003, see "Note Regarding Financial Information".

Unless otherwise stated, all information relating to SMBC in this Offering Circular is presented on a consolidated basis and has been extracted from the consolidated and non-consolidated (as the case may be) financial information for SMBC.

In connection with this issue, Goldman Sachs International or any person acting for Goldman Sachs International may over-allot or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on Goldman Sachs International or any agent of Goldman Sachs International to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.

FORWARD LOOKING STATEMENTS

This Offering Circular contains statements that constitute forward looking statements. These statements appear in a number of places in this Offering Circular and include statements regarding the intent, belief or current expectations of SMBC with respect to the results of operations and financial condition of SMBC, the SMBC Group, SMFG and the SMFG group including, without limitation, future loan loss provisions and financial support to customers. In those and other portions of this document, the words "anticipate", "believe", "estimate", "expect", "intend", and similar expressions, as they relate to SMBC or its management, are intended to identify forward looking statements. These statements reflect the current views of SMBC with respect to future events and are subject to certain risks, uncertainties and assumptions, including the investment considerations described in this Offering Circular. Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended.

Forward looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those in the forward looking statements as a result of various factors. The information contained in this Offering Circular, including without limitation the information under "Investment Considerations", "Recent Business and Outlook" and "Business" identifies important factors that could cause such differences, including but not limited to a change in overall economic conditions, changes in market rates of interest, declines in the value of equity securities or real estate in Japan, further deterioration of the quality of loans to certain industry sectors in Japan and the effect of new legislation or government directives.

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SUMMARY INFORMATION

The following summary is qualified in its entirety by, and is subject to, the detailed information and financial statements contained elsewhere in this Offering Circular. For a discussion of certain matters that should be considered by prospective investors in the Bonds, see "Investment Considerations".

SMBC:	SMBC is one of the world's leading commercial banks, with ¥99.8 trillion in consolidated total assets as at March 31, 2004. SMBC provides an extensive range of wholesale and retail banking services in Japan and overseas to its customers. In Japan, SMBC accepts deposits, makes loans and extends guarantees to corporations, individuals, governments and governmental entities. SMBC also underwrites and deals in bonds issued by or under the guarantee of the Japanese government and local government authorities, and acts in various administrative and advisory capacities for certain types of corporate and government bonds. Internationally, SMBC operates through a network of branches, representative offices, subsidiaries and affiliates to provide syndicated lending, project finance and portfolio management services while participating in international securities markets. SMBC is a wholly owned subsidiary of Sumitomo Mitsui Financial Group, Inc. SMFG was formed as the holding company for the SMFG group through a statutory share transfer (*kabushiki iten*) under the Commercial Code of Japan (the "Commercial Code"), on December 2, 2002 as a joint stock corporation with limited liability under the laws of Japan (see "Formation of a Holding Company Structure and Merger").
Securities offered:	€1,250,000,000 Fixed to Floating Rate Subordinated Bonds due 2014 of SMBC.
Status of the Bonds:	The Bonds constitute direct and unsecured obligations of SMBC and shall at all times rank *pari passu* and without preference among themselves and at least equally and rateably with all indebtedness of SMBC which is subordinated to the Senior Indebtedness of SMBC and is in priority to all perpetual subordinated indebtedness of SMBC (see "Terms and Conditions of the Bonds").
Form of Bonds:	The Bonds are in registered form and will be represented by registered certificates (each, a "Certificate"), one Certificate being issued in respect of each Bondholder's entire holding of Bonds.
Initial Delivery of Bonds: . . .	On or before July 27, 2004, the Global Certificate representing the Bonds will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Bonds that are to be credited to one or more clearing systems will be registered in the name of nominees or a common nominee for, or of a common depositary for, such clearing systems.
Interest:	Interest on the Bonds is payable annually in arrear on October 27 of each year, commencing October 27, 2004 until October 27, 2009, and semi-annually in arrear on April 27 and October 27 of each year, commencing April 27, 2010 and on the maturity date or redemption date, as described in Condition 4.
Redemption and Purchase:	Unless previously redeemed or purchased and cancelled the Bonds will be redeemable or repayable in accordance with Conditions 5 and 9. The Bonds are subject to redemption in whole, at their nominal amount, together with accrued interest, in the event of certain changes affecting taxes in Japan, or, on and after October 27, 2009 at the option of SMBC on each date of payment of interest, in each case, after having obtained the prior consent of the FSA. SMBC, SMFG and any Subsidiary (as defined by reference to the Conditions) may, at any time but subject to the prior consent of the FSA, purchase Bonds in the open market or otherwise at any price.
Use of proceeds:	SMBC will use the net proceeds from the offering of the Bonds for general corporate purposes.

Listing and trading:	Application has been made to list the Bonds on the Official List and to admit them to trading on the London Stock Exchange's market for listed securities.
Payment and settlement: . . .	Payments of principal will be made against presentation and surrender (or, in the case of a partial payment, endorsement) of the relevant Certificates at the specified office of any of the Transfer Agents or the Registrar in the manner provided in Condition 6(a). Interest on the Bonds will be paid to persons shown on the register of holders of the Bonds in the manner provided in Condition 6(a).

SELECTED FINANCIAL AND OTHER INFORMATION

The following table sets forth selected consolidated financial data for SMBC for the periods presented.

	Years ended and as at March 31,	
	2003[1]	2004
	(billions of yen, except ratios)	
Income Statement Data:		
Interest income	¥1,818	¥1,561
Interest expense	(417)	(295)
Net interest income	1,400	1,266
Net fees and commissions	350	331
Net trading profits (losses)	206	304
Net other operating income	226	8
General and administrative expenses	(888)	(776)
Transfer to reserves for possible loan losses	(655)	—
Other income	167	324
Other expenses	(1,347)	(1,100)
Income (loss) before income taxes and minority interests	(543)	356
Income taxes		
Current	(66)	(14)
Deferred	216	(0)
Minority interests	(37)	(40)
Net income (loss)	¥(429)	¥302
Balance Sheet Data[2]:		
Total assets	¥102,395	¥99,843
Loans and bills discounted	61,220	55,429
Securities	23,959	26,864
Deposits	67,885	68,982
Stockholders' equity	2,143	2,722
Credit Quality Data:		
Credit costs[3]	1,202	924
Reserve for possible loan losses[4]	2,202	1,376
Bankrupt loans	200	96
Non-accrual loans	2,666	1,711
Past due loans (3 months or more)	128	51
Restructured loans	2,689	1,372
Risk-Adjusted Capital Data:		
Tier I capital	3,066	3,112
Total qualifying capital	5,928	6,199
Total risk-adjusted assets	57,058	56,892
Tier I risk-adjusted capital ratio	5.37%	5.46%
Total risk-adjusted capital ratio	10.38%	10.89%

Notes:

(1) Financial information for the year ended and as at March 31, 2003 includes the results of Sumitomo Mitsui Card Company, Limited ("Sumitomo Mitsui Card"), SMBC Leasing Company Limited ("SMBC Leasing") and Japan Research Institute, Limited ("Japan Research Institute"). Since February 3, 2003, these companies are no longer consolidated subsidiaries of SMBC but those of SMFG, and as such their results were not consolidated into SMBC's consolidated financial statements for the year ended and as at March 31, 2004. See "Formation of the SMBC Group and the SMFG Group".

(2) SMBC is not required to maintain records in Japan which would enable it to determine averages and related ratios on a consolidated basis and therefore such information is not included herein. Accordingly, the balance sheet data included herein has been prepared on a year-end basis only.

(3) Credit costs equal the aggregate of net additions to general reserves, direct write-offs, net additions to specific reserves, net additions to reserves for specific overseas loan losses, losses on sale of loans to CCPC, transfers to reserve for losses on loans sold and losses on sales of non-performing loans.

(4) Reserve for possible loan losses include general reserves, specific reserves and reserves for specific overseas countries.

TERMS AND CONDITIONS OF THE BONDS

The €1,250,000,000 Fixed to Floating Rate Subordinated Bonds due 2014 (the "**Bonds**") are constituted by a Trust Deed (the "**Trust Deed**") dated July 27, 2004 between Sumitomo Mitsui Banking Corporation ("**SMBC**") and J.P. Morgan Corporate Trustee Services Limited (the "**Trustee**" which expression includes any successor Trustee) as trustee for the holders of the Bonds. Certain provisions of these terms and conditions are summaries of, and are subject to, the detailed provisions of the Trust Deed. Payments under the Bonds will be made in accordance with the agency agreement (the "**Agency Agreement**") dated July 27, 2004 between SMBC, JPMorgan Chase Bank, London Branch as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor Principal Paying Agent), the Trustee, J.P. Morgan Bank Luxembourg S.A. as registrar (the "**Registrar**", which expression includes any successor Registrar), the transfer agents from time to time appointed as such (the "**Transfer Agents**", which expression includes any successor or additional Transfer Agent and which term includes the Registrar, and together with the Principal Paying Agent, the "**Agents**", which expression includes any successor and additional Agents) and the calculation agent from time to time appointed (the "**Calculation Agent**", which expression includes any successor or additional Calculation Agent).

Copies of the Trust Deed, incorporating the form of the Bonds and copies of the Agency Agreement are available for inspection at the offices of each of the Trustee and the Agents. The Bondholders are entitled to the benefit of, and are deemed to have notice of, all the provisions of the Trust Deed and any provisions of the Agency Agreement applicable to them.

1 Form, Denomination and Title

(a) *Form and denomination*: The Bonds are issued in registered form in the specified denomination of €50,000 or higher in integral multiples of €1,000. Bonds are represented by registered certificates ("**Certificates**"), each Certificate representing a holding of one or more Bonds by the same holder.

(b) *Title*: Title to the Bonds shall pass by registration in the register which SMBC shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement. Except as ordered by a court of competent jurisdiction or as required by law, the holder of any Bond shall be deemed to be and may be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on the Certificate representing it or its theft or loss) and no person will be liable for so treating the holder.

In these Conditions, "**Bondholder**" or "**holder**" means the person in whose name a Bond is registered and capitalised terms have the meanings given to them herein.

2 Transfer of Bonds

(a) *Transfer of Bonds*: One or more Bonds may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Bonds to be transferred, together with the form of transfer endorsed on such Certificate duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Bonds represented by one Certificate, a new Certificate will be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred will be issued to the transferor. All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfers of Bonds scheduled to the Agency Agreement. The regulations may be changed by SMBC, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Bondholder upon request.

(b) *Delivery of New Certificates*: Each new Certificate to be issued pursuant to Condition 2(a) will be available for delivery within three business days of receipt of the form of transfer and surrender of the Certificate. The new Certificate shall be delivered at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer and Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such method of delivery and/or such insurance as it may specify. In this Condition 2(b), "**business day**" means a day, other than a Saturday or a Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(c) *Exchange Free of Charge*: Transfer of Bonds and Certificates will be effected without charge by or on behalf of SMBC, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to such transfer (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(d) *Closed Periods*: No Bondholder may require the transfer of a Bond to be registered (i) during the period of 15 days ending on the due date for redemption of that Bond, (ii) during the period of 15 days prior to any date on which Bonds may be redeemed by SMBC at its option pursuant to Condition 5(c), (iii) during the period of seven days ending on (and including) any Record Date (as defined below).

3 Status and Subordination

(a) *Status*: The Bonds constitute direct and unsecured obligations of SMBC and shall at all times rank *pari passu* and without any preference among themselves and at least equally and rateably with all indebtedness of SMBC which is subordinated to Senior Indebtedness of SMBC (as defined below) and is in priority to all perpetual subordinated indebtedness of SMBC.

(b) *Subordination Event*: Upon the occurrence of a Subordination Event, the obligations of SMBC pursuant to the Bonds shall be subordinated in right of payment to all Senior Indebtedness and, so long as such Subordination Event continues (and in the case of civil rehabilitation proceedings, so long as neither a Summary Rehabilitation Order nor Consent Rehabilitation Order shall have been issued), no payment will be made under the Bonds (except for such amounts which shall have become due and payable, other than solely by way of acceleration, prior to the date on which a Subordination Event shall have occurred) unless and until (i) in the case of Condition 9(a), all Senior Indebtedness of SMBC appearing on the final distribution list prepared by the Administrator for the final distribution of bankruptcy assets pursuant to the Bankruptcy Law is paid in full or provision has been made for the payment in full thereof pursuant to the Bankruptcy Law, (ii) in the case of Condition 9(b), all Senior Indebtedness of SMBC appearing in the plan of reorganisation, at the date such plan has become final and conclusive after approval by a court of competent jurisdiction in Japan, as indebtedness of SMBC, subject to modification of such plan, is paid in full to the extent of the original amount of such indebtedness without regard to such modification, (iii) in the case of Condition 9(c), all Senior Indebtedness of SMBC appearing in the plan of rehabilitation, at the date such plan has become final and conclusive after approval by a court of competent jurisdiction in Japan, as indebtedness of SMBC subject to modification of such plan, is paid in full to the extent of the original amount of such indebtedness without regard to such modification or (iv) in the case of Condition 9(d), conditions equivalent to those set out in (i), (ii) or (iii) above have been fulfilled; provided that notwithstanding any provision herein to the contrary if the imposition of any such condition is not allowed under such proceedings, any amount which becomes due under the Bonds shall become payable in accordance with these Conditions and not subject to such condition.

A Bondholder by his acceptance of such Bond shall thereby agree that if any payment on such Bond is made to the Bondholder after the occurrence of a Subordination Event and the amount of such payment shall exceed the amount, if any, that should have been paid to such holder, the payment of such excess amount shall be deemed null and void and such holder shall be obliged to return the amount of the excess payment within ten days after receiving notice of the excess payment.

So long as a Subordination Event shall have occurred and shall be continuing (and in the case of civil rehabilitation proceedings, so long as neither a Summary Rehabilitation Order nor Consent Rehabilitation Order shall have been issued), no right of the Bondholder to the payments under the Bonds shall be subject to the right to set-off against any liabilities of the Bondholders owed to SMBC unless and until the conditions for payment set out in (i), (ii), (iii) and (iv), corresponding to the Subordination Event in the first paragraph of Condition 3(b) shall have been fulfilled.

The Trust Deed provides that no amendment or modification may be made to the subordination provisions contained in this Condition 3 unless such an amendment or modification is not prejudicial to any present or future creditor in respect of any Senior Indebtedness of SMBC as specified in Condition 10 (subject to the approval of the Trustee or an Extraordinary Resolution of the Bondholders also as specified in Condition 10). No such amendment or modification prejudicial to any present or future creditor in respect of any Senior Indebtedness of SMBC shall in any event be effective.

(c) *Definitions*: The following definitions apply to these Terms and Conditions:

"**Administrator**" means bankruptcy administrator in the case of a bankruptcy pursuant to the Bankruptcy Law and corporate reorganisation administrator in the case of a reorganisation pursuant to the Reorganisation Law.

"**Bankruptcy Law**" means the Japanese Bankruptcy Law (Law No. 71 of 1922) as amended or replaced from time to time;

"**Civil Rehabilitation Law**" means the Japanese Civil Rehabilitation Law (Law No. 225 of 1999) as amended or replaced from time to time;

"**Consent Rehabilitation Order**" means a decision of a court of competent jurisdiction under Article 217, paragraph 1 of the Civil Rehabilitation Law to the effect that the procedures for the investigation and confirmation of civil rehabilitation claims as defined in Article 84 of the Civil Rehabilitation Law, and the resolution of a civil rehabilitation plan shall be omitted.

"**FSA**" means the Financial Services Agency of Japan.

"**Reorganisation Law**" means the Japanese Corporate Reorganisation Law (Law No. 154 of 2002) as amended or replaced from time to time;

"**Senior Indebtedness**" means all deposits and other liabilities of SMBC (other than (i) liabilities under the Bonds which shall not have become due and payable prior to the date on which a Subordination Event shall have occurred, (ii) liabilities under the Bonds which shall have become due and payable solely by way of acceleration prior to such date and (iii) other liabilities ranking *pari passu* with, or junior to, the Bonds (which liabilities shall, for these purposes, include any liabilities under dated subordinated notes with terms and conditions substantially equivalent in priority of payment as the Bonds except for the absence of item (iii) in Condition 3(b) and of Condition 9(c))) and other liabilities ranking *pari passu* with or junior to such liabilities.

"**Subordination Event**" means any of the events listed in (a), (b), (c) and (d) of Condition 9.

"**Summary Rehabilitation Order**" means a decision of a court of competent jurisdiction under Article 211, paragraph 1 of the Civil Rehabilitation Law to the effect that the procedures for the investigation and confirmation of civil rehabilitation claims as defined in Article 84 of the Civil Rehabilitation Law shall be omitted.

4 Interest

(a) *Fixed Rate Payments:* Each Bond bears interest on its outstanding nominal amount from and including July 27, 2004 (the "**Fixed Rate Interest Commencement Date**") to, but excluding, October 27, 2009 at the rate of 4.375 per cent. per annum, payable annually in arrear on October 27 in each year (each a "**Fixed Rate Interest Payment Date**"), except that the first payment of interest, to be made on October 27, 2004 (the "**First Fixed Rate Interest Payment Date**") will be in respect of the period from and including the Fixed Rate Interest Commencement Date to but excluding the First Fixed Rate Interest Payment Date, and will amount to €10.99 per €1,000 in nominal amount of Bonds.

If interest is required to be calculated for a period less than a Fixed Rate Interest Period, it will be calculated on the basis of the actual number of days in the Fixed Rate Interest Period divided by 365 (or, if any portion of that Fixed Rate Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Fixed Rate Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Fixed Calculation Period falling in a non-leap year divided by 365).

For the purposes of these Conditions, "**Fixed Rate Interest Period**" means the period beginning on (and including) the Fixed Rate Interest Commencement Date and ending on (but excluding) the First Fixed Rate Interest Payment Date and each successive period beginning on (and including) a Fixed Rate Interest Payment Date and ending on (but excluding) the next succeeding Fixed Rate Interest Payment Date.

(b) *Floating Rate Payments:*

(i) *Floating Rate Interest Payment Dates:* Each Bond bears interest on its outstanding nominal amount from and including the Floating Rate Interest Commencement Date to but excluding the Floating Rate Interest Payment Date falling on or nearest October 27, 2014 at a floating rate per annum (expressed as a percentage) equal to the Floating Rate of Interest, such interest being payable semi-annually in arrear on each Floating Rate Interest Payment Date.

(ii) *Floating Rate of Interest:* The Floating Rate of Interest in respect of each Floating Rate Interest Period shall be determined by the Calculation Agent at or about the Relevant Time on the Floating Rate Interest Determination Date in respect of such Floating Rate Interest Period in accordance with the following:

(x) The Floating Rate of Interest for such Floating Rate Interest Period shall be the aggregate of the Margin and the Relevant Rate appearing on the Page at the Relevant Time on the Floating Rate Interest Determination Date;

(y) If no Relevant Rate appears on the Page at the Relevant Time on the Floating Rate Interest Determination Date, subject as provided below, the Floating Rate of Interest shall be the aggregate of the Margin and the arithmetic mean of the Relevant Rates that each of the Reference Banks is quoting to leading banks in the Euro-zone at the Relevant Time on the Floating Rate Interest Determination Date, as determined by the Calculation Agent;

(z) If paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are so quoting Relevant Rates, subject as provided below, the Floating Rate of Interest shall be the aggregate of the Margin and the arithmetic mean of the rates per annum (expressed as a percentage) that the Calculation Agent determines to be the rates (being the nearest equivalent to the Benchmark) in respect of a Representative Amount of Euro that at least two out of five leading banks selected by the Calculation Agent in the Euro-zone (the "**Principal Financial Centre**") are quoting at or about the Relevant Time on the date on which such banks would customarily quote such rates for a period commencing on the Effective Date for a period equivalent to the Specified Duration to leading banks carrying on business in Europe; except that, if fewer than two of such banks are so quoting to leading banks carrying on business in Europe, the Floating Rate of Interest shall be the Floating Rate of Interest determined on the previous Floating Rate Interest Determination Date.

(iii) *Calculations:* The amount of interest payable in respect of each €1,000 in nominal amount of Bonds for a Floating Rate Interest Period shall be calculated by multiplying (A) the product of the Floating Rate of Interest and €1,000 in nominal amount of such Bonds by (B) the actual number of days in the Floating Rate Interest Period divided by 360.

(iv) *Determination and Publication of Rates of Interest and Floating Rate Interest Amounts:* As soon as practicable after the Relevant Time on each Floating Rate Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, it shall determine such rate and calculate the Floating Rate Interest Amount in respect of €1,000 in nominal amount of the Bonds for the relevant Floating Rate Interest Period, obtain such quotation or make such determination or calculation, as the case may be, and cause the Floating Rate of Interest and Floating Rate Interest Amount for each Floating Rate Interest Period and the relevant Floating Rate Interest Payment Date to be notified to the Principal Paying Agent, the Trustee, SMBC, the Registrar, each of the Transfer Agents, the Bondholders and if the Bonds are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority, as soon as possible after their determination but in no event later than (i) the commencement of the relevant Floating Rate Interest Period, if determined prior to such time, in the case of notification to such exchange of a Floating Rate of Interest and Floating Rate Interest Amount and the relevant Floating Rate Interest Payment Date, or (ii) in all other cases, the fourth TARGET Business Day after such determination. The Floating Rate Interest Amounts and the Floating Rate Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Floating Rate Interest Period. If the Bonds become due and payable under Condition 9, the accrued interest and the Floating Rate of Interest payable in respect of the Bonds shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Floating Rate of Interest or the Floating Rate Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent shall (in the absence of manifest error) be final and binding upon all parties.

(v) *Determination or Calculation by Trustee:* If the Calculation Agent does not at any time for any reason determine or calculate the Floating Rate of Interest or Floating Rate Interest Amount, the Trustee shall do so (or shall appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects, it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

(vi) *Definitions:* In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Benchmark**" means six month EURIBOR.

"**Business Day**" means a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets are open for business in London and Tokyo and which is also a day on which the TARGET System is operating.

"**Effective Date**" means, with respect to any Floating Rate of Interest to be determined on a Floating Rate Interest Determination Date, the first day of the Floating Rate Interest Period to which such Floating Rate Interest Determination Date relates.

"**Euro-zone**" means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

"**Floating Rate Interest Amount**" means the amount of interest payable in respect of a Floating Rate Interest Period.

"**Floating Rate Interest Commencement Date**" means October 27, 2009.

"**Floating Rate Interest Determination Date**" means, with respect to the Floating Rate of Interest and the Floating Rate Interest Period, the day falling two TARGET Business Days prior to the first day of such Floating Rate Interest Period.

"**Floating Rate Interest Payment Date**" means April 27 and October 27 in each year (commencing April 27, 2010 and ending October 27, 2014) or if any such date is not a Business Day, the immediately following Business Day.

"**Floating Rate Interest Period**" means the period beginning on (and including) the Floating Rate Interest Commencement Date and ending on (but excluding) the first Floating Rate Interest Payment Date and each successive period beginning on (and including) a Floating Rate Interest Payment Date and ending on (but excluding) the next succeeding Floating Rate Interest Payment Date.

"**Floating Rate of Interest**" means the rate of interest payable pursuant to Condition 4(b) from time to time in respect of this Bond and that is calculated in accordance with the provisions herein.

"**Margin**" means 2.25 per cent.

"**Page**" means the page on which the Euro-zone interbank offered rates for deposits in Euro of leading banks are for the time being displayed as page "248" on the Moneyline Telerate Monitor, or such other page as may replace it on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Relevant Rate.

"**Reference Banks**" means four major banks selected by the Calculation Agent in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) in the Euro-zone.

"**Relevant Rate**" means the Benchmark for a Representative Amount of Euro for a period (if applicable or appropriate to the Benchmark) equal to the Specified Duration commencing on the Effective Date.

"**Relevant Time**" means 11.00 hours, Brussels time.

"**Representative Amount**" means, with respect to any Floating Rate of Interest to be determined on a Floating Rate Interest Determination Date, an amount that is representative for a single transaction in the relevant market at the time.

"**Specified Duration**" means, with respect to any Floating Rate of Interest to be determined on a Floating Rate Interest Determination Date, six months.

"**TARGET Business Day**" means a day on which the TARGET System is operating.

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System or any successor thereto.

(vii) *Calculation Agent and Reference Banks:* SMBC shall procure that there shall at all times be four Reference Banks with offices in the Euro-zone and one or more Calculation Agents for so long as any Bond is outstanding (as defined in the Trust Deed). If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then SMBC shall (with the prior written approval of the Trustee) appoint another Reference Bank with an office in the Euro-zone to act as such in its place. If the Calculation Agent is unwilling to act as such or if the Calculation Agent fails duly to establish the Floating Rate of Interest for a Floating Rate Interest Period or to calculate any Floating Rate Interest Amount, or to comply with any other requirement, SMBC shall (with the prior written approval of the Trustee) appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter options index market) in the Euro-zone to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

(c) *Accrual of Interest:* Interest shall cease to accrue on each Bond on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the rate and in the manner provided in this Condition 4 to the Relevant Date (as defined in Condition 7).

5 Redemption and Purchase

(a) *Final Redemption:* Unless previously redeemed, purchased and cancelled as provided below, each Bond will be finally redeemed at its nominal amount on the Floating Rate Interest Payment Date falling on or nearest October 27, 2014.

(b) *Redemption for taxation reasons:* If, on the occasion of the next payment in respect of the Bonds, SMBC satisfies the Trustee that (i) SMBC would be unable to make such payment without having to pay Additional Amounts as defined in Condition 7 as a result of any change in, or amendment to, the laws or regulations of Japan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after July 21, 2004, and (ii) such obligation cannot be avoided by SMBC taking reasonable measures available to it, SMBC may, having obtained the prior consent of the FSA, and having given not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 13 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds at any time during the Fixed Rate Interest Period and on any Floating Rate Interest Payment Date at their nominal amount together with accrued interest. Prior to the publication of any notice of redemption pursuant to this paragraph, SMBC shall deliver to the Trustee a certificate signed by a Director of SMBC stating that the obligation referred to in (i) above cannot be avoided by SMBC taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above in which event it shall be conclusive and binding on the Bondholders.

(c) *Redemption at the Option of SMBC*: Subject to the prior consent of the FSA having been obtained, SMBC may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Bondholders in accordance with Condition 13, redeem all but not some only of the Bonds on the Fixed Rate Interest Payment Date falling on October 27, 2009, or on any Floating Rate Interest Payment Date. Any such Redemption of Bonds shall be at their nominal amount together with interest accrued to the date fixed for redemption. All Bonds in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

(d) *Purchase*: SMBC, Sumitomo Mitsui Financial Group, Inc. ("**SMFG**") and any Subsidiary (as defined in the Trust Deed) may, at any time but subject to the prior consent of the FSA having been obtained, purchase Bonds in the open market or otherwise at any price. Any such Bonds purchased by SMBC, SMFG or any Subsidiary may at the option of SMBC, SMFG or any Subsidiary be held or resold by SMBC, SMFG or such Subsidiary, as the case may be or may be surrendered, for cancellation by delivering the Certificate representing such Bond to the Principal Paying Agent or the Registrar. The Bonds so purchased, while held by or on behalf of SMBC, SMFG or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Bondholders or for the purposes of Conditions 9, 10(a) and 11.

(e) *Cancellation*: All Bonds redeemed by SMBC pursuant to paragraph (c) of this Condition or surrendered by SMBC, SMFG or any Subsidiary pursuant to paragraph (d) of this Condition will be cancelled forthwith and may not be re-issued or resold and the obligations of SMBC in respect of such Bonds shall be discharged.

6 Payments

(a) *Method of Payment*: Payments of principal will be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar in the manner provided in paragraph (b) below.

Interest will be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Bond shall be made at the specified office of any of the Transfer Agents or the Registrar in Euro by cheque drawn on a bank in the Euro-zone, and mailed to the holder (or to the first named of joint holders) of such Bond at its address outside Japan appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account maintained by the payee with a bank in the Euro-zone.

(b) *Payments subject to fiscal laws*: All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of Condition 7. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

(c) *Appointment of Agents*: The initial Agents and their initial specified offices are listed below. The Principal Paying Agent and the other Agents act solely as agents of SMBC and do not assume any obligation or relationship of agency or trust for or with any holder. SMBC reserves the right at any time with the approval of the Trustee in writing to vary or terminate the appointment of any Agent and to appoint additional or other Agents, provided that it will maintain at all times (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent, (iv) a Calculation Agent, (v) so long as the Bonds are listed on the official list of the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 and admitted to trading on the London Stock Exchange's market for listed securities, a Transfer Agent in London and (vi) an Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive. Notice of any change in the Agents or their specified offices will promptly be given to the Bondholders in accordance with Condition 13.

(d) *Payments on non-business days*: If any date for payment determined in accordance with Condition 4 in respect of any Bond is not a Payment Business Day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph "**Payment Business Day**" means a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets are open for business in the relevant place of presentation and in London and Tokyo and which is also a day on which the TARGET System is operating.

7 Taxation

All payments of principal and interest in respect of the Bonds shall be made without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Japan, or any authority therein or thereof having power to tax (the "**Taxes**"), unless such withholding or deduction of such Taxes is required by law. In that event SMBC shall pay such additional amounts ("**Additional Amounts**") as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no Additional Amounts shall be payable in respect of any Bond presented for payment:

(a) *Other connection*: by or on behalf of a holder (i) who is for Japanese tax purposes treated as an individual resident of Japan or Japanese corporation (other than a designated financial institution which does not fall under item (ii) below) or (ii) who fails to comply with the Japanese tax law requirements in respect of the exemption from such withholding or deduction or (iii) who is otherwise subject to such Taxes by reason of his having some connection with Japan other than the mere holding of the Bond; or

(b) *Presentation more than 30 days after the Relevant Date*: more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such Additional Amounts on presenting the same for payment on such thirtieth day; or

(c) *Payment to individuals:* where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) *Payment by another Agent:* by or on behalf of a Bondholder who would have been able to avoid such withholding or deduction by presenting the relevant Bond to another Agent in a Member State of the European Union.

As used herein, a "**designated financial institution**" means a Japanese financial institution or a Japanese securities company designated by the Special Taxation Measures Law Enforcement Order pursuant to Article 6, paragraph 8 of the Special Taxation Measures Law of Japan (Law No. 26 of 1957, as amended).

As used in these Conditions, "**Relevant Date**" means the date on which such payment first becomes due except that if the full amount of the moneys payable has not been duly received by the Principal Paying Agent or the Trustee on or prior to such due date, it means the date on which the full amount of such moneys having been so received, notice to that effect shall have been duly published in accordance with Condition 13. Any reference in these Conditions to principal or interest shall be deemed also to refer to any additional amounts which may be payable under this Condition or any undertakings or covenants given in addition to or substitution for it under the Trust Deed.

8 Prescription

Claims against SMBC for payment in respect of the Bonds shall be prescribed and become void unless made within ten years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

9 Events of Default

If one of the following events shall occur and be continuing, the Trustee at its discretion may, and if so requested by holders of not less than 25 per cent. in aggregate nominal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution of Bondholders, shall, subject in each case to being indemnified to its satisfaction, give notice to SMBC that the Bonds are, and they shall immediately become, due and repayable at their nominal amount plus accrued interest:

(a) a court of competent jurisdiction shall have adjudicated SMBC to be bankrupt pursuant to the provisions of the Bankruptcy Law or any successor legislation thereto;

(b) a court of competent jurisdiction shall have commenced reorganisation proceedings with regard to SMBC pursuant to the provisions of the Reorganisation Law or any successor legislation thereto;

(c) a court of competent jurisdiction shall have commenced civil rehabilitation proceedings with regard to SMBC pursuant to the provisions of the Civil Rehabilitation Law or any successor legislation thereto;

(d) SMBC shall become subject to bankruptcy, corporate reorganisation or other equivalent proceedings pursuant to any applicable law of any jurisdiction other than Japan, which proceedings have an equivalent effect to those set out in (a), (b) and (c) above.

10 Meetings of Bondholders and Modification

(a) *Meetings of Bondholders:* The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including modifications by Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders of the Bonds (including these Conditions or any provision of the Trust Deed) except that no amendment or modification shall be made to Condition 3 or the provisions as to subordination in Clause 2.2 of the Trust Deed which would be, in the reasonable opinion of SMBC, in any way prejudicial to any present or future creditor in respect of any Senior Indebtedness.

Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed), except that any Extraordinary Resolution proposed, *inter alia*, (i) to amend any date for payment of principal or interest on the Bonds, (ii) to reduce or cancel the nominal amount payable on redemption of the Bonds, (iii) to reduce the rate of interest in respect of the Bonds or to vary the method or basis of calculating the rate or amount of interest or the basis for calculating the interest in respect thereof, (iv) to vary the currency of payment or denomination of the Bonds, (v) to take any steps which as specified hereon may only be taken following approval by an

Extraordinary Resolution to which the special quorum provisions apply or (vi) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass the Extraordinary Resolution (as provided in the Trust Deed), will only be binding if passed at a meeting of Bondholders (or at any adjournment thereof) at which a special quorum (provided for in the Trust Deed) is present.

(b) *Modification of Trust Deed:* The Trustee may, without the consent of the Bondholders, at any time and from time to time concur with SMBC in making any modification to these terms and conditions or the Trust Deed (except that no amendment or modification may be made to Condition 3 or the provisions as to subordination in Clause 2.2 of the Trust Deed which would be, in the reasonable opinion of SMBC, in any way prejudicial to any present or future creditor in respect of any Senior Indebtedness) or to any waiver or authorisation or any breach or proposed breach by SMBC of the provisions of the Bonds or the Trust Deed which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Bondholders, or to any modification of these terms and conditions, or the Trust Deed (except as aforesaid) which, in the opinion of the Trustee, is of a formal, minor or technical nature or is made to correct a manifest error.

11 Enforcement

At any time after the Bonds become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against SMBC as it may think fit to enforce the terms of the Trust Deed and the Bonds, but it need not take any such proceedings unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least 25 per cent. in nominal amount of the Bonds outstanding, and (ii) it shall have been indemnified to its satisfaction. No Bondholder may proceed directly against SMBC unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

12 Replacement of Certificates

If a Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar or such other Transfer Agent as may from time to time be designated by SMBC for the purpose and notice of whose designation is given to Bondholders (in accordance with Condition 13) subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as SMBC may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

13 Notices

Notices to Bondholders will be valid if published in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*). Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

14 The Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from any obligation to take proceedings to enforce repayment of the Bonds unless indemnified to its satisfaction. The Trustee will be entitled to enter into business transactions with SMBC or any Subsidiary without accounting to the Bondholders for any profit resulting therefrom.

In connection with the exercise of its powers, trusts, authorities or discretions (including but not limited to those in relation to any proposed modification, waiver, authorisation, determination or substitution as aforesaid), the Trustee shall have regard to the interests of the Bondholders as a class and in particular, but without prejudice to the generality of the foregoing, shall not have regard to the consequence of such exercise for individual Bondholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory.

15 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

16 Governing Law

(a) *Governing Law:* The Trust Deed and the Bonds are governed by, and shall be construed in accordance with, English law.

(b) *Jurisdiction:* The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Bonds and accordingly any legal action or proceedings arising out of or in connection with the Bonds ("**Proceedings**") may be brought in such courts. SMBC has in the Trust Deed irrevocably submitted to the jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of each of the Bondholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) *Agent for Service of Process:* SMBC has irrevocably appointed the General Manager for the time being of Sumitomo Mitsui Banking Corporation Europe Limited at Temple Court, 11 Queen Victoria Street, London EC4N 4TA, United Kingdom as agent in England to receive service of process in any Proceedings in England based on any of the Bonds. If for any reason SMBC does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Bondholders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM

Initial Issue of Bonds

Upon the registration of the Bonds in the name of the common depositary for Euroclear and Clearstream, Luxembourg (the "**Common Depositary**") or its nominee and delivery of the Global Certificate to the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Bonds equal to the nominal amount thereof which it has subscribed and paid. The Global Certificate is exchangeable (free of charge to the holder) in whole, but not in part, for definitive certificates if the Bonds represented by the Global Certificate are held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**") and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or an Alternative Clearing System as the holder of a Bond represented by the Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or the Alternative Clearing System (as the case may be) for its share of each payment made by SMBC to the holder of the underlying Bonds, and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or an Alternative Clearing System (as the case may be). Such persons shall have no claim directly against SMBC in respect of payments due on the Bonds for so long as the Bonds are represented by the Global Certificate and such obligations of SMBC will be discharged by payment to the holder of the underlying Bonds, in respect of each amount so paid.

Transfer of Bonds represented by the Global Certificate

Transfers of the holding of Bonds represented by the Global Certificate pursuant to Condition 2 may only be made in part if the Bonds represented by the Global Certificate are held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so provided that the registered Bondholder has given the Registrar not less than 30 days notice at its specified office of the registered Bondholder's intention to effect such transfer.

Prescription

Claims against SMBC for payment in respect of principal and interest of the Bonds represented by the Global Certificate shall become void unless made within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as such is defined in the Conditions).

Amendments to the Conditions

The Global Certificate contains provisions that apply to the Bonds that it represents while they are in global form, some of which modify the effect of the terms and conditions of the Bonds set out in this Offering Circular. The following is a summary of those provisions:

1. Meetings

The holder of Bonds represented by the Global Certificate shall (unless the Global Certificate represents only one Bond) be treated as being two persons for the purposes of any quorum requirements of a meeting of Bondholders. (All holders of Bonds are entitled to one vote in respect of each €1,000 in nominal amount of Bonds held by such Bondholder, whether or not represented by a Global Certificate.)

2. Cancellation

Cancellation of any Bond represented by a Global Certificate that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount represented by the Global Certificate.

3. Trustee's Powers

In considering the interests of Bondholders while the Bonds are registered in the name of any nominee for, or of the common depositary (or its nominee) for, any clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Bonds and may consider such interests as if such accountholders were the registered holders of the Bonds represented by the Global Certificate.

4. Notices

So long as the Bonds are represented by the Global Certificate and the Bonds represented by the Global Certificate are registered in the name of a nominee for a clearing system or a common depositary in respect of clearing systems, notices to Bondholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions.

USE OF PROCEEDS

The net proceeds from the offering of the Bonds are expected to be approximately €1,239,087,500 (before deduction of expenses relating to the issue) and will be used by SMBC for general corporate purposes.

INVESTMENT CONSIDERATIONS

Prior to making an investment decision, prospective investors should carefully consider, along with other matters set forth in this offering circular, the following investment considerations. Except as otherwise indicated, the information herein is presented on a consolidated basis.

Risks Related to SMBC

SMBC Continues to Face Losses Relating to Non-Performing Loans

SMBC has recognised very sizeable losses relating to non-performing loans relative to its operating profits and capital levels in recent years. Consequently, SMBC recognised credit costs (which consist of net additions to general and specific reserves and reserves for specific overseas loan losses, direct write-offs, losses on sales of loans to the Cooperative Credit Purchasing Company, Limited (''CCPC''), transfers to reserves for losses on loans sold and losses on sales of non-performing loans) of ¥1,202 billion and ¥924 billion in the years ended March 31, 2003 and 2004, respectively. SMBC's non-performing loans are largely comprised of loans made after the ''bubble'' era to domestic and overseas corporate customers as well as to Japanese individuals. The effects of the prolonged weak economic conditions in Japan, as well as recent financial difficulties faced by SMBC's customers, have resulted in the recognition of substantial credit costs by SMBC. Although recently Japanese economic conditions have shown signs of recovery, the prolonged severe economic condition which prevailed in Japan and other external economic factors, which have affected large and small borrowers, increased the number of corporate bankruptcies in Japan from approximately 14,500 in 1996 to more than 19,400 in 2002, according to information supplied by Teikoku Databank, Ltd. Although the number of corporate bankruptcies declined to approximately 16,600 in 2003 the adverse effects of the prolonged economic weakness in Japan and the consequently high number of corporate bankruptcies are still continuing.

Many of SMBC's non-performing loans are directly or indirectly collateralised by real estate in Japan. The market price of real estate in Japan has declined substantially since 1990 and there has been limited liquidity in the domestic real estate market. As a consequence, Japanese financial institutions, including SMBC, have had difficulty in achieving timely and adequate recoveries on foreclosed real estate and in determining realisable values for real estate collateral. In some cases, SMBC has had to, and may have to in the future, bear significant discounts in recoveries on foreclosed assets sold through auctions or in individual or bulk sales to investors. SMBC may need to make additional reserves against loans if the collateral securing those loans further declines in value.

As at March 31, 2004, on a non-consolidated basis SMBC had ¥362 billion in bankrupt and quasi-bankrupt assets, ¥1,203 billion in doubtful assets and ¥1,247 billion in substandard loans. For a description of the various loan categories, see ''Business — Loan Losses and Non-Performing Loans — Disclosure of Problem Assets Under the Financial Reconstruction Law''. In accordance with FSA guidelines, SMBC maintains general or specific reserves in each of these categories in proportion to the expected losses. As at March 31, 2004, on a non-consolidated basis SMBC's general and specific reserves amounted to ¥769 billion and ¥474 billion, respectively. In the future, SMBC may recognise credit losses on existing assets in excess of reserves if SMBC suffers from the prolonged weak economic conditions, further declines in real estate prices in Japan, an increase in corporate or personal bankruptcies in Japan, further deterioration of the financial condition of SMBC's borrowers leading to increases in non-performing loans, or changes in reserve and risk management requirements.

On October 30, 2002 the FSA announced its ''Programme for Financial Revival'' (the ''FSA's Programme''), focusing on the revival of the Japanese economy through the resolution of the non-performing loans issue affecting Japan's major banks. The FSA's Programme called for, among other things, a tighter assessment of bank assets (including the requirement to use a discounted cash flow method when calculating reserves on loans to large borrowers classified as substandard loans), a review of the criteria used to determine the average remaining periods for loans used to calculate provisioning, a harmonised classification method for large borrowers among banks, the valuation of debt for equity swaps at fair value and the rigorous examination of reconstruction plans and assessments of collateral. With effect from March 31, 2003, SMBC has been calculating loan loss reserves for substandard assets (for loans made to certain large borrowers) based on their estimated discounted cash flows. If SMBC or the FSA should apply stricter standards with respect to the assessment of loan assets including non-performing loans, or broaden the scope of the borrowers to which the methodology applies, SMBC may need to recognise further credit losses. See ''Recent Events — Recent Regulatory Developments''.

On April 27, 2004 the FSA announced that it had completed its special inspection of SMBC together with the other 10 major Japanese banks for the banks' financial year ended March 31, 2004. The special inspection was conducted in cooperation with the banks' external auditors. As in the previous rounds of the special inspections, the inspections checked the classification of large borrowers whose stock prices, external ratings and other indicators had been experiencing significant changes, at a respective main bank to obtain appropriate classification which reflected the latest business condition of the borrower on a real time basis. The special team for examining reconstruction plans examined the borrower's reconstruction plans in cooperation with the special inspection team. SMBC calculated the amount of write-offs and provisions for loan losses for the year ended March 31, 2004 in line with the special inspection. This, among other factors, resulted in the recognition of credit costs of ¥924 billion for the year ended March 31, 2004. If the FSA were to expand the scope of large borrowers or conduct further special inspections, SMBC's credit costs may become higher than those recorded and may further adversely affect the financial condition and operating results of SMBC.

In addition, in April 2004 the FSA announced that a new type of inspection, focused on banks' credit risk management for large borrowers, will be implemented, and will target major banks whose credit risk management for large borrowers is deemed to be problematic. The purpose of this inspection is to examine whether or not banks are taking proper action in terms of their credit risk management for large borrowers, focusing on the extent to which they have identified the actual status of large borrowers, and their involvement in developing and reviewing the borrowers' reconstruction plans. See ''Supervision and Regulation — the Financial Services Agency — Examination of Banks''. Although the scope and effects of any such inspection are as yet uncertain, it may in certain circumstances increase SMBC's credit costs and thus adversely affect the financial condition and operating results of SMBC.

The FSA recently began requiring that banks dispose of loans made to borrowers categorised as potentially bankrupt borrowers, or lower, within a time period of between two or three years depending on when the loans were so classified and subject to specified disposition targets within these timeframes. Specifically, SMBC is required to dispose of 50 per cent., 80 per cent. and 100 per cent. of non-performing loans in the first, second and third years, respectively. Further, the FSA's Programme called for Japanese banks to reduce their problem asset ratio by half by the end of March 2005 compared to March 2002, when the problem asset ratio was 8.9 per cent. As at March 31, 2004 SMBC had ¥2,811 billion of outstanding loans and other claims categorised as Bankrupt and Quasi-Bankrupt Assets, Doubtful Assets and Substandard Loans on a non-consolidated basis and the problem asset ratio was 5.0 per cent. There can be no assurance that SMBC will succeed in disposing of these loans within the mandated timeframes, meet the specified targets within these timeframes or realise the values at which these loans are carried. Additionally, the migration of credits will cause the specified disposition targets to vary, and the requirements may also be revised making them more difficult to satisfy. The consequences of not being able to satisfy these or any future requirements for disposition of non-performing loans are uncertain at this time.

In addition, in recent years, high-profile bankruptcy filings and reports of past accounting irregularities, including fraud, in various companies world-wide have raised corporate credibility issues, particularly with respect to public companies. In response to these developments, regulators, auditors and corporate managers generally have begun to review financial statements more thoroughly and conservatively. As a result, additional accounting irregularities may be uncovered and additional bankruptcy filings may be made in Japan, the United States and elsewhere. Such developments could increase SMBC's credit costs if they directly involve SMBC's borrowers or indirectly affect the credit of SMBC's borrowers.

SMBC estimates that credit costs will be ¥450 billion (on a non-consolidated basis) for the year ending March 31, 2005. SMBC's actual credit costs for the year ending March 31, 2005 may substantially exceed the estimated amount due to various factors, including possible further action by the FSA to introduce more stringent rules on self-assessment, the potential increase in offering of financial support or debt forgiveness to troubled customers, the protracted economic slump in Japan and continuing deflation (irrespective of signs of recovery) which may result in an increase in non-performing loans and a drop in collateral values. SMBC has in the past recognised credit costs that exceeded its projected credit costs. For example, SMBC projected non-consolidated credit costs of ¥500 billion and ¥650 billion for the years ended March 31, 2003 and 2004, respectively, but recognised actual credit costs at higher levels than were originally anticipated for the respective periods. See ''Business — Loan Losses and Non-Performing Loans''.

Exposure to Japanese Real Estate, Wholesale and Retail, Service, Finance and Insurance and Construction Companies May Cause Additional Losses in the Future

Japanese real estate, wholesale and retail, service, finance and insurance and construction companies have been severely and adversely affected by the prolonged economic weakness in Japan. The losses of companies in these industries can be partly traced to direct and indirect investments in real estate and to the decline of major public and private sector development projects initiated during the ''bubble'' era. SMBC has significant exposure to a number of companies in these industries. As at March 31, 2004, to the domestic industries, SMBC had an exposure of ¥7,949 billion to the real estate industry (15.45 per cent. of total domestic loans), ¥5,871 billion to the wholesale and retail industry (11.41 per cent. of total domestic loans), ¥6,177 billion to the service industry (12.01 per cent. of total domestic loans), ¥4,035 billion to finance and insurance companies (7.84 per cent. of total domestic loans) and ¥1,950 billion to the construction industry (3.79 per cent. of total domestic loans). See "Business — Loans — Domestic Lending" and "Business — Loan Losses and Non-Performing Loans — Policies with Respect to Troubled Customers".

SMBC and its subsidiaries, affiliates and associated companies have agreed to restructure a substantial number of loans to companies in these sectors, including a substantial number of loans that are not (and are not required to be) considered non-performing or disclosed as non-performing loans. In the event that the financial condition of companies in these sectors deteriorates further, it is possible that some of the currently performing loans made by SMBC to customers in these sectors may become non-performing and it may become necessary for SMBC to provide further financial support to these customers. SMBC has provided financial assistance to certain financially distressed retail and construction companies in the form of debt forgiveness, debt for equity swaps and through the acquisition of new shares. SMBC may provide financial assistance to these companies in the future and may incur considerable additional credit costs as a result thereof.

SMBC May Need to Provide Additional Support to Japanese Financial Institutions, Troubled Customers or Affiliated Companies

Japanese financial institutions, including banks, non-bank lending and credit institutions, financial affiliates of securities companies and insurance companies have been experiencing economic difficulties. In some cases, asset quality problems and other financial problems have led, or may lead, to severe liquidity and solvency problems that have resulted, or may result, in the liquidation or restructuring of certain of the affected financial institutions. From time to time, the Japanese government has requested that one or more financial institutions, including SMBC, either provide financial and other assistance to support distressed financial institutions or directly or indirectly acquire some portion of the non-performing loans or other assets of such distressed financial institutions and such financial institutions, including SMBC, have complied with certain of these requests. No assurance can be provided that SMBC's regulators will not in the future make similar or broader requests to SMBC. Moreover, SMBC does business with, and in some instances is a shareholder of and/or lead lender to, other financial institutions and, as a result, in certain circumstances may find itself exposed to the credit, or other risks, associated with the financial difficulties encountered by these institutions. See "Business — Loan Losses and Non-Performing Loans".

Additionally, SMBC provides direct and indirect support to troubled customers, generally in cases where such support is economically justified. However, SMBC, like other banks in Japan, has provided support to troubled customers under circumstances, and based upon considerations, that may differ in kind or degree from those relevant in other countries, including Europe and the United States. These may include political and regulatory influences and a perceived responsibility for obligations of affiliated and associated companies due to the relationships between the various entities. A decision by SMBC not to provide support, or to withdraw its support to large borrowers may result in substantial and immediate credit costs. SMBC has supported in the past, and may support in the future, companies belonging to the Sumitomo group of companies (the "Sumitomo group") and the Mitsui group of companies (the "Mitsui group") and other affiliated entities. See "Business — Loan Losses and Non-Performing Loans — Policies with Respect to Troubled Customers".

Restructured Loans May Present Uncertainties for SMBC

SMBC has recently announced the restructuring of a number of its loans to large borrowers, some of which include the use of debt for equity swaps. Valuation and classification of restructured loans or restructured equity positions can be difficult and may lead to additional credit costs if restructured loans are not properly classified or the restructuring plan fails. As part of the FSA's Programme, the FSA requested that equity securities received as part of a debt for equity swap should be valued at fair value, regardless of the timing of the relevant swap transaction, which could present difficult valuation issues for SMBC and expose it to future losses. Additionally, securities received in such restructurings may be illiquid making it difficult for SMBC to achieve its intended reduction of its equity portfolio.

Market Risks Affecting SMBC's Equity Portfolio Could Impair SMBC's Financial Condition and Results of Operations

The reported value of SMBC's securities portfolio depends on the fair market values of these investments. Approximately 13 per cent. of SMBC's securities portfolio consists of equity securities which are primarily common stocks of publicly traded Japanese companies. Shares in these companies have in recent years been subject to some volatility and have substantially declined in value although some recovery has been seen recently. A decline in the value of SMBC's securities portfolio has a negative effect on the level of SMBC's losses from devaluation of securities and sales of securities. As at March 31, 2004, SMBC's securities (including money held in trust) with a readily ascertainable market value contained ¥545 billion in unrealised gains, of which ¥320 billion appeared in its consolidated stockholders' equity. Although the Nikkei 225 Index increased 1.22 per cent. from ¥11,715.39 as at March 31, 2004 to ¥11,858.87 as at June 30, 2004, and the TOPIX increased 0.88 per cent. from 1,179.23 as at March 31, 2004 to 1,189.60 as at June 30, 2004, there is no guarantee that the recovery of the equity market will continue or even that this recovery will not be reversed and any substantial decline in the Japanese equity market may have negative effects on SMBC's distributable profits and its capital position. "Geopolitical risks", including hostilities involving North Korea or the Middle East, could, among other things, adversely affect equity markets and the valuation of SMBC's equity portfolio.

SMBC may also be negatively affected by the legal requirement which require banks to reduce their equity holdings by September 30, 2006 to the extent that the value of their equity holding exceeds Tier I capital. See "Supervision and Regulation — Japan — Restriction on Bank's Stockholding, the Bank's Shareholdings Purchase Corporation and Direct Purchase by the Bank of Japan". Although currently SMBC's equity holdings are within such limits, since a large portion of SMBC's equity holdings is comprised of shareholdings in its borrowers and cross shareholdings, the disposition of significant amounts of these shareholdings could negatively impact client relationships and cause secondary market sales of SMFG's shares. While SMBC may seek the consent of an issuer to sell its shares, consent may not be obtained or could significantly delay the timing of the sale. Also, if SMBC tries to sell relatively illiquid shares, the price of these shares may decline rapidly. Therefore, SMBC's ability to dispose of its equity holdings at the required pace may be limited. During the year ended March 31, 2004, SMBC completed sales of a significant amount of cross shareholdings. The balance of SMBC's consolidated equity portfolio as at March 31, 2004 has increased to ¥3.6 trillion, from ¥3.4 trillion as at March 31, 2003. As a result, the market value of SMBC's consolidated equity portfolio classified as other securities with market value as at March 31, 2004 continues to be lower than SMBC's consolidated Tier I capital. Also on an adjusted basis defined under the legislation, the balance of SMBC's equity portfolio is lower than Tier I capital. However, due to the possibilities for fluctuations in the value of SMBC's equity portfolio and the level of Tier I capital, there can be no assurance that SMBC will be able to fulfill the requirement as at September 30, 2006. It is uncertain what actions the FSA would take in such a case and there can be no assurance that the failure to achieve the targeted results would not have an adverse effect on SMBC.

Interest Rate Risk Could Impair SMBC's Financial Condition and Results of Operations

SMBC has substantial investments in yen-denominated debt securities, principally fixed-rate bonds. In particular, Japanese Government Bonds ("JGB") represent a significant part of SMBC's fixed income portfolio. As at March 31, 2004, on a non-consolidated basis, SMBC had ¥16.7 trillion of yen-denominated debt securities, of which ¥13.9 trillion were JGBs. SMBC also had ¥110.4 billion of net unrealised losses on investments in yen-denominated debt securities (classified as held-to-maturity securities and as other securities) as at March 31, 2004. In addition, SMBC owned ¥5.2 trillion of foreign debt securities as at March 31, 2004 which mainly consisted of U.S. Treasury securities. An increase in interest rates could substantially decrease the value of SMBC's fixed income portfolio, and any unexpected change in interest rates could adversely affect SMBC's bond and interest rate derivative positions. The duration of SMBC's JGB portfolio was 2.9 years as at March 31, 2004, down from 3.5 years as at March 31, 2003. As such, a parallel shift of the whole yield curve by 1 basis point would result in approximately ¥4 billion of change to the value of SMBC's JGB portfolio. In addition, a decline in the price of JGBs would substantially decrease the value of SMBC's securities portfolio. Downgrades of JGBs by major rating agencies, if any, may cause a decline in the price of JGBs. Moreover, in recent years SMBC earned substantial profits from its investment in fixed income securities, including JGBs and U.S. Treasury securities. If interest rates remain stable or increase, SMBC might not be able to maintain these earnings levels. Furthermore, following a continuous decrease, the long-term interest rate sunk to its low in mid June 2003. According to information supplied by Bloomberg L.P., as of July 8, 2004, the 10-year JGB interest rate hit a yearly low of 0.879 per cent. on August 8, 2003 and hit the yearly high of 1.914 per cent. on June 24, 2004. As a result of the rise in the long-term interest rate, the market value of SMBC's fixed income portfolio has been reduced. If the long-term interest rate keeps increasing, the value of SMBC's fixed income portfolio will further decline significantly. See "Business — Securities-Related Activities — Securities Portfolio".

Exposure to Subsidiaries, Affiliates, Joint Ventures and Other Business Arrangements May Adversely Affect SMBC's Financial Condition and Results of Operations

SMBC operates parts of its business such as consumer financing and asset management through subsidiaries and affiliates and has entered into various joint venture arrangements. See "Business — Operations". It is uncertain whether SMBC will receive any benefit from its investments in these subsidiaries, affiliates and joint ventures, and SMBC may need to provide additional support to these entities in the future. Further, SMBC may lose the capital it contributed to those entities and may incur credit costs resulting from its credit exposure to these entities if they fail or do not perform as expected. Certain of these entities, including, for example, the investment banking and consumer finance entities, also engage in activities that are more volatile and have a higher risk profile than the core banking business of SMBC.

Refinancing Risk Could Impair SMBC's Financial Condition and Results of Operations

Substantial amounts of SMBC's debt obligations mature each year. SMBC depends on its ability to continue to attract deposits and to refinance its debt obligations at commercially acceptable rates, and continues to finance a certain portion of its operations with short term funds. As these obligations become due, SMBC may need to find alternative sources of financing even if market conditions are unstable. No assurance can be provided that sufficient funds will be available at acceptable terms, and failure to refinance these debts could adversely affect SMBC's financial condition and results of operations. Additionally, certain of SMBC's perpetual and subordinated debt obligations become callable every year. SMBC may choose not to call some or all of these obligations due to the lack of refinancing opportunities or for other reasons. SMBC's reputation in the capital markets could be undermined and its future financing activities could become more difficult if this were the case.

SMBC Will be Exposed to Increased Risks as it Expands its Range of Services and Products and Implements New Strategies

As SMBC expands the range of its products and services beyond its traditional banking business to include other financial services, and as the sophistication of financial products, such as financial derivatives, and management systems grow, SMBC will be exposed to new and increasingly complex risks. In some cases these risks will be of a type with which SMBC has no or only limited prior experience. As a result, SMBC's risk management systems may prove to be inadequate, and may not work in all cases or to the degree required. For example, as SMBC implements its plan to expand its consumer finance lending business and new types of loans to small- and medium-sized enterprises ("SMEs"), which are generally considered to be risky lines of business, losses may be incurred. Consequently, SMBC remains subject to substantial market, credit and other risks in relation to these expanding products and services and trading activities, including its derivatives business, which could result in significant losses. In addition, SMBC's efforts to offer new services and products may not succeed if market opportunities develop more slowly than expected, or if the profitability of these opportunities is undermined by competitive pressures.

Additionally, the implementation of revised lending practices and the adjustment of interest rates charged by SMBC to better reflect risk may prove more difficult than anticipated. The implementation of these strategies may face several difficulties including the following: customers may be unable to pay interest rates that reflect their risk profile, competitors may continue to provide loans that do not reflect risk premiums and to offer loans with less onerous terms and conditions and SMBC may face cultural or other resistance to the implementation of these strategies.

SMBC has also begun to manage its risk on an entity-wide, rather than on an individual company, basis. This strategy remains relatively new at this time, may expose SMBC to unforeseen risk and may prove not to be successful.

Currency Risk Could Negatively Impact SMBC's Financial Condition and Results of Operations

The Japanese yen has fluctuated in value relative to the U.S. dollar over the last decade. There can be no assurance that increasing volatility of the foreign exchange rates for yen will not have an adverse effect on the Japanese economy and SMBC's financial condition or results of operations.

A Significant Downgrade of SMBC's Credit Ratings Could Have a Negative Effect on SMBC

A significant downgrade of SMBC's credit ratings by one or more of the credit rating agencies could have a negative effect on SMBC's treasury operations and other aspects of its business. In the event of a downgrade of SMBC's credit ratings, its treasury unit may have to accept less favourable terms in its transactions with counterparties, including capital raising activities, or may be unable to enter into certain transactions. In addition, foreign regulatory bodies may impose restrictions on SMBC's overseas operations. This could have a negative impact on the profitability of SMBC's treasury and other operations and adversely affect its results of operations and financial condition.

In addition, on June 9, 2003, following the failure of Resona Holdings, Inc. (''Resona Holdings'') to pay a dividend for preferred shares held by the Japanese government, Standard & Poor's downgraded the rating assigned to capital securities issued by the subsidiaries of major Japanese banks, including SMBC. The rating of preferred securities issued by SB Treasury Company, LLC (see Note 16 of the Notes to the Consolidated Financial Statements as of and for the year ended March 31, 2004) was downgraded by Standard & Poor's from BB– to B+. Further, on August 21, 2003, Moody's Investors Service downgraded the capital securities issued by SB Treasury Company, LLC from Baa2 to Baa3. Although on June 23, 2004, Standard and Poor's raised its ratings on eight major Japanese banks (including SMBC, whose long-term ratings were raised to BBB+ with a positive outlook), there is no guarantee that the ratings may not again subsequently worsen. An affirmation of the present rating or an upgrade and subsequent downgrade of either SMBC or any of its subsidiaries may have a negative impact on SMBC's capital raising activities.

Capital Requirements Could Constrain SMBC's Operations

SMBC is subject to capital adequacy guidelines adopted by the FSA, which provide for a minimum target ratio of capital to risk-adjusted assets of 8.0 per cent. both on a consolidated basis and non-consolidated basis for an internationally operating bank, at least half of which must be maintained in the form of Tier I capital. Failure by SMBC to maintain its ratios may result in administrative actions or sanctions against SMBC which may indirectly impact SMBC's ability to fulfil its obligations under the Bonds. See ''Supervision and Regulation — Japan — Capital Adequacy''.

SMBC's risk-adjusted capital ratios as at March 31, 2004 were 5.46 per cent. (in the case of consolidated unaudited Tier I capital) and 10.89 per cent. (in the case of consolidated unaudited total capital). SMBC expects that its risk-adjusted capital ratios at future balance sheet dates will principally reflect changes in the amount of SMBC's risk-adjusted assets, the amount of expected cash dividends to SMFG, the amount of SMBC's qualifying earnings or losses, credit costs, net deferred tax asset balances, the amount and type of additional capital raised and certain unrealised losses in its securities portfolio. There can be no assurance that SMBC will be able to maintain its capital at or above the 4.0 per cent. level (in the case of consolidated Tier I capital) and the 8.0 per cent. level (in the case of consolidated total capital) in the future.

Further, the risk-adjusted capital guidelines (the ''Basel Accord'') promulgated by the Basel Committee on Banking Supervision (the ''Basel Committee''), which form the basis for the FSA's capital adequacy guidelines, has recently been revised and implementation is generally planned for 2006. According to the revised guidelines, the main changes that would be effected include application of risk weighting depending on the credit status of certain customers using an ''internal ratings-based'' approach to credit risk (subject to approval of supervising authorities), allocation of risk assets in relation to operational risk and supervisory review of the process of evaluating risk measurement and capital ratios. However, at this time, SMBC is unable to predict how the revised guidelines will affect its calculations of capital and the impact of these revisions on other aspects of its operations.

Weaknesses in SMBC's Capital Base and Contemplated Regulatory Changes Could Adversely Affect SMBC

As at March 31, 2004, SMBC recognised ¥1,591 billion of net deferred tax assets on its non-consolidated balance sheet, which is realised based on future projected taxable income for five years, multiplied by the effective tax rates applicable to SMBC. As at the same date, consolidated net deferred tax assets of ¥1,607 billion constituted approximately 52 per cent. of SMBC's consolidated Tier I capital.

On June 22, 2004, the Working Group on Regulation of Capital Adequacy Ratio, which is one of the subcommittees of the Financial System Council (the ''Working Group''), issued a report on the regulatory treatment of deferred tax assets (the ''Report'').

According to the Report, the Working Group suggests that certain regulations should be imposed to rationalise the amount of deferred tax assets that may be included in the calculation of Tier I and/or total regulatory capital, provided that due consideration is given to the following recommendations of the Working Group in implementing the new regulations: it is desirable (i) to introduce the new regulations by degrees after an appropriate grace period has passed in order to prevent unexpected adverse effects on the financial system and to keep the new regulations consistent with the macroeconomic policy; (ii) to initiate the new regulations after major banks achieve their objectives to reduce their problem asset ratio by half by the end of March 2005 compared to March 2002; and (iii) to consider the difference in the tax system compared to other countries. The Report also suggests in conclusion that supervisory authorities should determine their own initiatives on concrete measures regarding regulatory treatment of deferred tax assets after further examining the issue based on the discussions in the Report and does not set out any concrete measures for implementation. See "Recent Events — Improvement of Capital Ratios".

The calculation of net deferred tax assets under accounting principles and practices generally accepted in Japan ("Japanese GAAP") is based on taxable income projections. This calculation requires SMBC to make estimates and certain assumptions, and the results of these calculations may differ from the calculation of deferred tax assets under European or U.S. regulations. SMBC's ability to realise benefits from its deferred tax assets would be adversely affected to the extent that SMBC's actual taxable income is lower than the projected taxable income used to determine the amount of its deferred tax asset. Under guidelines issued by the Japan Institute of Certified Public Accountants in January 1999, a company will lose its ability to realise benefits from deferred tax assets if it has incurred substantial amounts of negative annual taxable income for each of three consecutive years or more and is expected to have significant negative taxable income in the following fiscal year. SMBC had negative taxable income in the year ended March 31, 2003 and positive taxable income in the year ended March 31, 2004.

On October 31, 2003, the FSA requested that major banks, including SMBC, enhance their disclosure of deferred tax assets in connection with the announcement of their interim results for the semi-annual period ended September 30, 2003 and for all subsequent reporting periods. The FSA also requested the banks to provide explanations of the procedures used to calculate deferred tax assets based on disclosed figures and other data. See "Business — Capital Adequacy".

The reduction of SMBC's deferred tax assets for any reason could materially reduce its regulatory capital. If SMBC's capital ratio were reduced below required levels, it could be required to withdraw from and/or suspend some or all of its business operation. See "Supervision and Regulation — Japan — Capital Adequacy" and "Business — Capital Adequacy".

The disposal of non-performing loans and transfers to taxable reserves could result in an increase of deferred tax assets. There can be no assurance that SMBC will be able to realise the tax benefits resulting from such loan disposals and transfers to taxable reserves.

The capital of SMBC is also partially comprised of capital contributions from insurance and other companies in which SMBC has made capital contributions. SMBC's capital ratio would be negatively affected if these cross-capitalisations were restricted or prohibited in the future.

Adverse Regulatory Developments or Changes in Government Policies, Economic Controls or Accounting Rules Could Have a Negative Impact on SMBC's Results of Operations

SMBC conducts its business subject to ongoing regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations in Japan and the other markets in which it operates. Future changes in regulation, fiscal or other policies and their effects are unpredictable and beyond SMBC's control. Over the past few years the FSA, the Bank of Japan and other elements of the government of Japan have taken steps designed to restore confidence in the Japanese financial system, address the asset quality problems faced by many Japanese financial institutions, strengthen the capital base, improve governance of major Japanese banks, and bring greater stability to the financial system. One of the goals announced in the FSA's Programme of October 2002 is the reduction of the aggregate ratio of non-performing loans to total outstanding loans of major Japanese banks by about half by March 31, 2005 compared with March 31, 2002. The steps taken, announced or reported by the Japanese government include the following:

- Tightening the assessment of assets by requiring major banks' reserves on problem assets to large borrowers that are classified as "substandard loans" to be based upon the estimated discounted cash flows of the impaired loans, implementing mechanisms to harmonise the major banks' classification of troubled large borrowers, establishing a special team responsible for the examination of corporate restructuring plans and performing regular special inspections to review banks' accounts, including those of SMBC;

- Reviewing capital ratios by reconsidering the banking regulations that allow all deferred tax assets established pursuant to Japanese GAAP to be included in regulatory capital, requesting external auditors to rigorously audit deferred tax assets and considering tax law changes intended to improve the capital adequacy of financial institutions;

- Improving corporate governance of financial institutions; and
- Providing government support to distressed financial institutions.

On August 1, 2003, the FSA issued administrative orders against 15 banks and bank holding companies, including SMFG, that have received public funds and recorded substantially below their planned net income for the year ended March 31, 2003 in order to make sure that those banks would attain their targeted net income in their Revitalisation Plans for the year ended March 31, 2004. The orders included measures requiring the submission, implementation and reporting on Business Improvement Plans. Consequently, in August 2003, SMFG submitted such a business improvement plan, and has been reporting on the progress on a quarterly basis. See ''Recent Events — Recent Regulatory Developments — Administrative Order. Such further measures, if implemented, could negatively affect SMBC's business, results of operations and capital ratios. For a detailed discussion of these and other steps designed to restore confidence on the Japanese financial system. See ''Recent Events — Recent Regulatory Developments''.

Other changes in the regulatory environment and new regulatory initiatives, such as new regulations designed to prevent money laundering or related to environmental matters, may also negatively impact SMBC's results of operations and financial condition. See ''Supervision and Regulation''.

In addition, in recent years various changes in, and introduction of new, accounting standards have been taking place and continue to be considered. Any such changes or introductions may affect the SMBC Group's results of operations and financial condition.

Governmental Ownership of SMFG's Convertible Preferred Stock and New Governmental Policies Could Adversely Affect SMBC

A Japanese governmental entity currently owns SMFG's Type 1, Type 2 and Type 3 preferred stocks that are either currently convertible or will become convertible into common stock of SMFG. Based on SMFG's stock price of ¥770,000 at March 31, 2004, the governmental entity would own approximately 32.7 per cent. of SMFG's common stock, assuming full conversion of such government-held preferred stocks and no conversion of any other outstanding preferred stocks issued by SMFG. However, the governmental entity could acquire more or less than a 32.7 per cent. interest depending on SMFG's share price at the time of conversion and certain minimum conversion price restrictions. Additionally, the preferred stock is mandatorily convertible in 2009 based on the prevailing market price, subject to certain minimum conversion price restrictions. If the preferred stock is converted at the minimum conversion prices applicable upon mandatory conversion, the governmental entity would own approximately 41.4 per cent. of SMFG's common stock (assuming March 31, 2004 capitalisation levels). As a result of these and other considerations, SMFG intends to repurchase or otherwise dispose of the preferred stock prior to the mandatory conversion date, which may be subject to certain restrictions and shareholders' approval regarding a repurchase of shares as prescribed under the Commercial Code.

The governmental entity holding these convertible preferred stock could also obtain approximately 14.0 per cent. of SMFG's total stockholder voting rights prior to conversion if SMFG does not pay annual dividends on its preferred stocks. Consequently, failure to pay dividends on the preferred stocks or conversion of the government-held preferred stocks into common stock could result in significant influence over SMFG by a governmental entity. See ''Business — Funding — Public Funding''. In April 2003, the FSA announced its decision to tighten the application of supervisory actions and clarify the criteria governing the conversion of government-held preferred stock in order to improve corporate governance of banks and bank holding companies (including SMFG) that have received public funds (as amended on August 7, 2003). See ''Recent Events — Recent Regulatory Developments — Improvement of Governance''.

If the Japanese government injects more public funds into Japanese commercial banks or bank holding companies, such injection may result in SMFG issuing additional preferred or common stock to the government, which could ultimately result in the government obtaining additional voting rights of SMFG. Conversion of government-held preferred stock in SMFG or an additional injection of public funds into SMFG may result in indirect control by the Japanese government over SMBC (as the wholly-owned subsidiary of SMFG) and in SMBC's losing autonomy.

Goldman Sachs May Become a Significant Shareholder of SMFG's Common Stock

GSSM Holding Corp. (''GSSM''), a wholly-owned subsidiary of the Goldman Sachs Group, Inc. (''Goldman Sachs''), holds 50,100 shares of SMFG's First to Twelfth Series Type 4 preferred stock. These shares of preferred stock are convertible into SMFG's common stock during the period beginning February 2005 and ending in February 2028. If the preferred stock were converted at their initial conversion price as adjusted (assuming March 31, 2004 capitalisation levels), GSSM would hold approximately 7.4 per cent. of SMFG's common stock (assuming no conversion of any other outstanding preferred stock). The conversion price is subject to downward adjustment depending on the market price of SMFG's common stock. If the preferred stock is converted at the minimum conversion price applicable during the conversion period as adjusted, GSSM would own approximately 19.6 per cent. of SMFG's common stock (assuming March 31, 2004 capitalisation levels and no conversion of any other outstanding preferred stock) and may exercise influence over SMBC (as the wholly-owned subsidiary of SMFG). See "Business — Transactions with Goldman Sachs".

Further Declines in SMBC's Pension Assets or Revised Actuarial Assumptions Would Reduce Results of Operations

SMBC has faced in the past, and may face in the future, losses relating to its pension plans from changes in the market value of plan assets, a decline in returns on SMBC's pension plan assets or changes in the actuarial assumptions on which the calculation of the projected pension benefit obligation is based. For example, SMBC reduced the discount rate used to measure the projected pension benefit obligation from 3.0 per cent. to 2.5 per cent. in the year ended March 31, 2004 causing an unrecognised actuarial loss. In the year ended March 31, 2004, SMBC received an approval from Minister of Health, Labor and Welfare for exemption from future retirement benefit obligations with respect to the government entrusted portion of employee pension fund. Although this has decreased the amount of SMBC's unfunded pension obligation, any further future changes in discount rates, or actuarial assumptions may have an adverse effect on SMBC's results of operations. For example, any future reduction of the discount rate may cause further unrecognised actuarial loss, or SMBC may experience unrecognised prior service costs in the future resulting from amendments to the plans. Changes in the interest rate environment and other factors may also adversely affect the amount of the unfunded pension obligation and the resulting annual amortisation expense. Additionally, no assurance can be provided that the assumptions for the computation of future pension expenses will remain constant.

SMBC May Not Continue to Maintain the Current Level of Disclosure

Upon the formation of SMFG and the completion of the statutory share transfer, the Former-SMBC became a direct wholly-owned subsidiary of SMFG as of December 2, 2002. As a result, the shares of the Former-SMBC were delisted from the Tokyo Stock Exchange, Inc. (the "Tokyo Stock Exchange"). The shares of SMBC are not listed on any stock exchanges in Japan or elsewhere and, therefore, SMBC is not subject to the listing rules of the Tokyo Stock Exchange. However, SMBC is still subject to continuing disclosure obligations under the Securities and Exchange Law and the listing rules of the UK Listing Authority because publicly offered debt securities of SMBC are outstanding and certain debt securities of SMBC are currently listed on the Official List and traded on the London Stock Exchange. Although SMFG published its annual and semi-annual reports in English (including consolidated accounts of SMBC) for the year ended March 31, 2003, and intends to continue to maintain the current level of disclosure in English, there is no assurance that SMBC would continue to publish these disclosure materials.

SMBC May Amend Projections at Any Time and For Any Reason

On May 24, 2004, SMFG published SMBC's projected results for the year ending March 31, 2005. SMBC's projected non-consolidated results of gross banking profit, expenses, banking profit, ordinary profits and net income are included in this offering circular. On the same day, SMFG also published its projected consolidated results for the year ending March 31, 2005. SMFG's projected consolidated results of ordinary income, ordinary profit and net income are also included in this offering circular. See "Recent Business and Outlook — Outlook". Such projections involve known and unknown risks and uncertainties and actual results of SMBC may differ materially from projections. The rules of the Tokyo Stock Exchange require listed companies (including SMFG) to amend published projections if they consider that actual results could be different from those previously published by 30 per cent. or more in the case of net income and ordinary profit and 10 per cent. or more in the case of ordinary income. If SMBC expects that its projected results for the year ending March 31, 2005 would be materially different from those previously published, SMFG may need to amend its published projections.

Risks Related to the Industry

Prolonged Weakness in the Japanese Economy and Related Instability of the Japanese Financial System May Hurt SMBC's Financial Condition and Results of Operations

Sluggish economic conditions in Japan in recent years have had significantly adverse effects on Japanese financial institutions, including commercial banks. As a result of severe and protracted declines in the market prices of Japanese real estate and the weak equities market, which has been seen until recently, the relatively high number of bankruptcies (although recently the number has been decreasing slightly) and continuing deflation, Japanese financial institutions have been experiencing difficulties with non-accrual loans and asset devaluations. These difficulties have caused the failure of certain Japanese banks, insurance companies and other financial institutions. Changes in the regulatory environment, such as the introduction of limits to the deposit insurance system and the removal of regulatory barriers between different sectors of the financial industry, have also increased the competition facing financial institutions. These problems have led, and may lead in the future, to severe liquidity and solvency problems and may result in the liquidation or restructuring of certain financial institutions. The Japanese government has undertaken various measures in the past to support these institutions or otherwise to maintain depositor confidence generally. Certain of these measures have involved the use of public funds, for example, in 1999, the Japanese government nationalised two banks, The Long Term Credit Bank and The Nippon Credit Bank. In addition, in June 2003, the Japanese government determined to recapitalise Resona Bank, Ltd. ("Resona Bank") and in November 2003, The Ashikaga Bank, Ltd. ("Ashikaga Bank"), a major regional bank, announced its negative net worth status as at September 30, 2003, and the Japanese government placed it under temporary nationalisation. However, it is uncertain whether the Japanese government would undertake a similar restructuring or what measures it would undertake if faced with the probable failure of a major Japanese financial institution. In particular, in light of recent government policy changes, including a reduction in deposit insurance coverage, there can be no assurance that depositors or other creditors would be protected in such a situation. Furthermore, no assurance can be provided that the Japanese government will not request one or more financial institutions either to provide financial and other assistance to support distressed financial institutions or to directly or indirectly acquire some portion of the problem loans or other assets of such institutions. All of these measures may adversely affect SMBC. See "Supervision and Regulation — Japan".

SMBC's Business May be Adversely Affected by Negative Developments With Respect to Other Japanese Financial Institutions, Both Directly and by the Effect They May Have on the Overall Japanese Banking Environment and on Their Borrowers

Many Japanese financial institutions, including banks, non-bank lending and credit institutions, affiliates of securities companies and insurance companies, have been experiencing declining asset quality and capital adequacy and other financial problems. This may lead to severe liquidity and solvency problems, and has previously resulted in the liquidation, government control or restructuring of affected institutions in the past. The continued financial difficulties of other financial institutions could adversely affect SMBC because:

- as at March 31, 2004, approximately 9.6 per cent. of SMBC's total loans (on a non-consolidated basis) were made to financial institutions in domestic offices and of those loans, 1.1 per cent. were classified as risk-monitored loans;
- SMBC is a shareholder of some other banks and financial institutions that are not its consolidated subsidiaries;
- SMBC may be requested to participate in providing assistance to support distressed financial institutions, including those within the Sumitomo group and the Mitsui group;
- troubled banks and financial institutions may discontinue or decrease their credit support to troubled customers to whom SMBC is also a lender, resulting in significant failures of those borrowers or a deterioration in the quality of SMBC's loan portfolio;
- financial institutions may become majority owned and/or controlled by the Japanese government as a result of the government's conversion of their preferred stock into common stock and/or injection of additional public funds pursuant to the Deposit Insurance Law, the Law on the Special Measures for Strengthening Financial Functions (the "Strengthening Financial Functions Law") or other newly introduced framework for the injection of public funds into financial institutions;
- if the Japanese government takes control of one or more major financial institutions, SMBC may become a direct competitor of government-controlled financial institutions;
- SMBC may be put at a competitive disadvantage if the Japanese government provides regulatory, tax, funding or other benefits to other financial institutions, to strengthen their capital, facilitate their sale or otherwise;
- deposit insurance premiums could rise if deposit insurance funds prove to be inadequate; and
- repeated or large-scale bankruptcies and/or government support or control of financial institutions could undermine depositor confidence generally or adversely affect the overall banking environment.

SMBC Competes in the Highly Competitive Financial Services Industry

Recent regulatory changes have subjected SMBC to significant competition from other Japanese banks, branches of international banks and financial institutions other than banks. Many of these banks and other institutions compete for substantially the same business as SMBC. Substantial restructuring of the Japanese banking industry has recently taken place, including deregulation, which is expected to substantially further increase competition in the Japanese financial services. As a consequence, there are now four highly competitive major banking groups in Japan, including the SMFG group (two of such major banking groups, Mitsubishi Tokyo Financial Group, Inc. and UFJ Holdings, Inc., have recently announced their agreement to commence discussions regarding a possible management integration with each other). In addition, recent regulatory changes permit various financial and other institutions to enter into business sectors formerly reserved for Japanese banks. For example, Sony Corporation, an electronics manufacturer, and Ito-Yokado Co. Ltd., a supermarket operator, are offering specialised banking services with Sony Bank Inc. and IY Bank respectively. SMBC also faces competition from governmental lending agencies such as the Japan Finance for Small Business, National Life Finance Corporation, Japan Finance Corporation for Municipal Enterprises and the Government Housing Loan Corporation (''GHLC''), although GHLC has been decreasing the amount of new origination and plans to cease new origination by March 31, 2007. In addition, the establishment of the Japan Post in April 2003 and any further initiatives taken towards privatisation of the postal savings system could also result in an increase in competition in the financial services industry (see ''The Japanese Banking System''). Increased competition may have an adverse effect on SMBC's financial condition or results of operation.

Return of the ''Japan Premium'' or New Limitations on Credit Extended to Japanese Banks Could Adversely Affect SMBC

As a result of concerns regarding asset quality and the failure of several large Japanese financial institutions, a so-called ''Japan premium'' had been imposed on Japanese financial institutions in the past. The ''Japan premium'' refers to the additional risk premium that Japanese financial institutions (including SMBC) and their affiliates were required to pay in order to borrow short-term, interbank funds in international markets compared with their U.S. and European counterparts. There can be no assurance that a ''Japan premium'' will not be imposed again or that international lenders will not implement other limitations on the credit that they are willing to extend to Japanese banks, including SMBC.

A leak of personal information held by the SMBC Group may adversely affect its business

The SMBC Group keeps and manages personal information obtained from customers in relation to, among others, its banking, credit card and consumer finance businesses. Although the SMBC Group exercises care in protecting the confidentiality of personal information and takes steps to ensure its security, if any material leak of personal information does occur, the business of the SMBC Group could be adversely affected in a number of ways, such as being subjected to complaints and lawsuits for damages from customers if they are adversely affected as a result of the release of their personal information, incurring additional expenses associated with changing its security systems, either voluntarily or in response to administrative guidance or other regulatory initiatives, or in connection with public relations campaigns designed to prevent or mitigate damage to the SMBC Group's corporate or brand image or reputation. Any such damage to the SMBC Group's reputation could lead to a decline in new customers and/or a loss of existing customers, as well as to increased costs and expenses in dealing with any such problems.

Risks Related to the Offering

Subordination of the Bonds Could Hinder Investors' Ability to Receive Payment

Upon the occurrence of a Subordination Event (as defined in the Conditions), any amounts payable under the Bonds (except for such amounts as shall have become due and payable, other than solely by way of acceleration, prior to the date on which a Subordination Event shall have occurred) will be subordinated and subject in right of payment to the prior payment of all Senior Indebtedness (as defined in the Conditions). SMBC expects from time to time to incur additional indebtedness and other obligations that will constitute Senior Indebtedness and the Trust Deed does not contain any provisions restricting their ability to incur Senior Indebtedness.

The Market for the Bonds Offered by this Offering Circular May have Limited Liquidity

No assurances can be provided that an adequate trading market for the Bonds will develop or will be sustained.

The Ratings of the Bonds Could be Lowered

SMBC's long-term senior debt securities have been assigned a credit rating of A3 with a stable outlook by Moody's Investor Service, Inc. Based on this rating, the Bonds have received a provisional rating of Baa1 from Moody's Investor Service, Inc. Currently, SMBC's financial strength rating is E and the subordinated debt and junior subordinated debt are both rated Baa1. In addition, SMBC's long-term senior debt securities have been assigned a credit rating of BBB+ with a positive outlook by Standard & Poor's. Based on this rating, the Bonds have received a provisional rating of BBB from Standard & Poor's. Ratings are based upon information furnished by SMBC or obtained by the rating organisation from other sources and are subject to revision, suspension or withdrawal by the rating organisation at any time. A downgrade in the ratings could reduce the number of potential investors in the Bonds and adversely affect the value of the Bonds.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the consolidated capitalisation and indebtedness of SMBC as at March 31, 2004 which has been extracted without material adjustment from the audited annual consolidated financial statements of SMBC:

	As at March 31, 2004 (millions of yen)
Liabilities[1]:	
Deposits	¥68,981,540
Subordinated borrowings	770,003
Subordinated bonds[2]	1,661,881
Reserves:	
Reserve for employee bonuses	16,152
Reserve for employee retirement benefits	30,918
Reserve for expenses related to EXPO 2005 Japan[3]	116
Other reserves	862
Other liabilities[4][5]	24,650,131
Total liabilities[6]	96,111,607
Minority interests:	
Minority interests	1,009,489
Stockholders' equity:	
Capital stock	559,985
Preferred stock:	
Authorised — 1,767,000 shares, and issued and outstanding — 967,000 fully paid shares	
Common stock:	
Authorised — 100,000,000 shares, and issued and outstanding — 54,811,805 fully paid shares	
Capital surplus	1,298,511
Retained earnings	519,354
Land revaluation excess	96,393
Net unrealised gains on other securities	319,780
Foreign currency translation adjustments	(71,861)
Total stockholders' equity	2,722,161
Total liabilities, minority interests and stockholders' equity	¥99,843,258

Notes:

(1) Liabilities include short-term and long-term liabilities.

(2) During the period between April 1, 2004 to July 21, 2004 SMBC issued subordinated bonds amounting to ¥1 billion.

(3) SMBC accounts for the exhibition expenses related to "The 2005 World Exposition, Aichi, Japan" that will be held in Aichi Prefecture in 2005 as "Reserve for expenses related to EXPO 2005 Japan", which includes the reserve that is stipulated in Article 57-2 of the Specific Taxation Measures Law.

(4) Includes ¥3,084,542 million of acceptances and guarantees. All contingent liabilities arising in connection with customers' foreign trade and other transactions are accounted for in "Acceptances and guarantees".

(5) As at March 31, 2004, SMBC had no contingent liabilities or guarantees except for those disclosed in (4) above.

(6) SMBC has no liabilities guaranteed by unaffiliated entities. Details about the amount of certain secured/unsecured liabilities of SMBC are as follows:

	Millions of yen		
	Secured	Unsecured	Total
Deposits	¥ 15,276	¥68,966,263	¥68,981,540
Call money and bills sold	5,175,669	1,116,826	6,292,495
Payables under repurchase agreements	1,055,508	42,940	1,098,449
Payables under securities lending transactions	5,700,206	246,140	5,946,346
Trading liabilities	203,599	1,669,645	1,873,245
Borrowed money	4,451	1,219,429	1,223,881
Other liabilities	1,122	2,990,612	2,991,734
Acceptances and guarantees	141,835	2,942,706	3,084,542

All other liabilities of SMBC are unsecured.

(7) Save as disclosed above, there has been no material change in the consolidated capitalisation and indebtedness or contingent liabilities or guarantees of SMBC since March 31, 2004.

RECENT BUSINESS AND OUTLOOK

The following discussion should be read in conjunction with "Note Regarding Financial Information", "Selected Financial and Other Information" and the financial statements and notes to those financial statements included elsewhere in this Offering Circular. SMBC's financial statements are prepared in accordance with Japanese GAAP, which differs in certain significant respects from accounting principles and practices generally accepted in the United States. See "Summary of Significant Differences between Japanese GAAP and U.S. GAAP". Except as otherwise indicated, the information herein with respect to SMBC is presented on a consolidated basis. See "Note Regarding Financial Information".

Overview

During the year ended March 31, 2004, the global economy showed a gentle recovery especially towards the latter half of the fiscal year, led primarily by a recovery in the U.S. economy, with factors such as severe acute respiratory syndrome ("SARS") and the conflict in Iraq, which had put downward pressure on the global economy towards the beginning of the year, having been resolved to a greater extent. Over the same period, the Japanese economy showed stronger signs of recovery, with an improvement in corporate income due to increases in exports supported by the recovery in the global economy. However, adverse effects of the previously prolonged deflation and low consumer spending are still continuing, and, coupled with the appreciation of the Japanese yen, makes the outlook for the Japanese economy still uncertain.

Average Japanese stock prices increased during the year ended March 31, 2004, with the Nikkei 225 Index rising from 7,986.72 as of April 1, 2003 to 11,715.39 as of March 31, 2004. This had a beneficial effect on the results of operations of SMBC, in particular by gains on sale or devaluation of stocks and other securities. Over the same period, Japanese long-term interest rates also increased, reflecting the Japanese economic trends, which, among others, caused the increase in unrealised losses in SMBC's bond portfolio.

SMBC continued to dispose of its non-performing loans and to unwind cross-shareholdings during the year ended March 31, 2004 despite the signs of recovery in the global and Japanese economy, in line with its strategy to further strengthen its balance sheet.

Consolidated Results for the year ended March 31, 2004

Interest income comprises interest on loans and discounts, interest and dividends on securities, interest on call loans and bills bought, interest on receivables under resale agreements, interest on receivables under securities borrowing transactions, interest on deposits with banks and other interest income. For the year ended March 31, 2004, SMBC's total interest income decreased ¥256,821 million, or 14.1 per cent., to ¥1,560,705 million compared with the year ended March 31, 2003 mainly due to the lower interest applied, a reduction in the volume of loans.

Interest expenses comprises interest on deposits, interest on negotiable certificates of deposit, interest on call money and bills sold, interest on payables under repurchase agreements, interest on payables under securities lending transactions, interest on commercial paper, interest on borrowed money, interest on bonds and other interest expenses. For the year ended March 31, 2004, SMBC's total interest expenses decreased ¥122,330 million, or 29.3 per cent., to ¥295,075 million compared with the year ended March 31, 2003 mainly due to lower average rate of deposits and other borrowings.

As a result, SMBC's net interest income (total interest income minus total interest expense) amounted to ¥1,265,630 million for the year ended March 31, 2004.

Fees and commissions comprise fees from money remittance and transfers and fees relating to deposits and loans (such as loan commitment fees, loan arrangement fees and derivatives sales fees), securities transactions (such as bond trustee fees and bond recording agency fees) and guarantees and acceptances. For the year ended March 31, 2004, SMBC's income from fees and commissions decreased ¥2,169 million, or 0.5 per cent., to ¥422,066 million compared with the year ended March 31, 2003 as increases in fees for sales of investment trusts and individual annuity products and arrangement of syndicated loans were set off by a decrease in the credit card business caused by the deconsolidation of Sumitomo Mitsui Card. Expenses related to fees and commissions increased ¥17,198 million, or 23.2 per cent., to ¥91,455 million compared with the year ended March 31, 2003 mainly due to an increase in guarantee fees related to housing loans and collateralised loan obligations.

As a result, SMBC's net fees and commissions amounted to ¥330,610 million for the year ended March 31, 2004.

For the year ended March 31, 2004, SMBC's net trading income (trading profits minus trading losses) increased ¥98,324 million, or 47.8 per cent., to ¥304,094 million compared with the year ended March 31, 2003 mainly due to an increase in foreign exchange profits related to derivatives transactions.

Other operating income includes bond-related income, lease-related income, installment related income and other operating income. Other operating expenses consist of bond-related losses, lease-related expenses, instalment-related expenses and other operating expenses. For the year ended March 31, 2004, SMBC's other operating income decreased ¥716,019 million, or 75.6 per cent., to ¥231,017 million compared with the year ended March 31, 2003 mainly due to the deconsolidation of SMBC Leasing from SMBC. Other operating expenses decreased ¥497,729 million, or 69.0 per cent., to ¥223,464 million compared with the year ended March 31, 2003 mainly due to the deconsolidation of SMBC Leasing from SMBC. As a result, SMBC's net other operating income amounted to ¥7,552 million for the year ended March 31, 2004.

General and administrative expenses consist of salaries and related expenses, rent and lease expenses, welfare expenses, depreciation expenses and taxes other than income taxes. For the year ended March 31, 2004, SMBC's general and administrative expenses decreased ¥112,315 million, or 12.6 per cent., to ¥776,106 million compared with the year ended March 31, 2003, primarily as a result of SMBC's cost cutting efforts, benefits achieved from the reduction in the number of offices and branches in the past few years and the unification of systems as well as steady decline in the number of personnel.

Other income comprises gains on sales of stocks and other securities, write-back of loan loss reserves, gains on disposal of premises and equipment, collection of written-off claims, equity in earnings of affiliates and other income (including gains on return of the entrusted portion of employee pension fund). Other expenses consist of transfers to reserves for possible loan losses, write-off of loans, losses on devaluation of stocks, losses on sales of stock and other securities, losses on disposal of premises and equipment, and other expenses (including amortised cost of unrecognised net obligation from initial application of the new accounting standard for employee retirement benefits and losses on disposal of software). For the year ended March 31, 2004, SMBC's other income increased ¥157,826 million, or 94.8 per cent., to ¥324,367 million compared with the year ended March 31, 2003 mainly due to increases in gains on sale of stocks and other securities and gains on returns of the entrusted portion of employee pension fund, as well as the tax refund from the Tokyo Metropolitan Government on the resolution of the regional tax litigation (see "Recent Events — SMBC's Regional Tax Litigation"). Other expenses decreased ¥246,843 million, or 18.3 per cent., to ¥1,100,179 million compared with the year ended March 31, 2003 mainly due to decreases in losses on sale and devaluation of stocks and other securities.

As a result, SMBC's net other expenses amounted to ¥775,811 million for the year ended March 31, 2004.

As a result of these factors, for the year ended March 31, 2004, SMBC's total income decreased ¥718,341 million, or 20.2 per cent., to ¥2,843,502 million and total expenses decreased ¥1,617,317 million, or 39.4 per cent., to ¥2,487,197 million compared with the year ended March 31, 2003. For the year ended March 31, 2004, income before income taxes and minority interests amounted to ¥356,304 million. Income taxes amounted to a net charge of ¥14,263 million which included a deferred tax charge of ¥293 million, as compared to a net income tax benefit of ¥150,320 million which included a deferred tax credit of ¥216,233 million for the year ended March 31, 2003. As a result of the above, for the year ended March 31, 2004, SMBC recorded a net income of ¥301,664 million.

Outlook

On May 24, 2004, SMFG published SMBC's projected non-consolidated results for the year ending March 31, 2005 as part of the supplementary information of the financial results for the year ended March 31, 2004, being: approximately ¥1,565 billion of gross banking profit, approximately ¥585 billion of expenses, approximately ¥980 billion of banking profit (excluding transfer to general reserve for possible loan losses)(1), approximately ¥500 billion of ordinary profit and approximately ¥280 billion of net income. On the same date, SMFG also published its projected consolidated results for the year ending March 31, 2005 of approximately ¥3,400 billion of ordinary income, approximately ¥650 billion of ordinary profit and approximately ¥330 billion of net income. These projections are based on the management plan to dispose of non-performing loans and reduce exposure to stock market risk.

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(1) Banking profit (excluding transfer to general reserve for possible loans losses), a commonly used indicator of the profitability of banking operations among Japanese banks, is calculated as follows: net interest income (adjusted to exclude expenses incurred in connection with the management of money held in trust) + net trading revenue + net fees and commissions + net other operating income — general and administrative expenses (adjusted to exclude non-recurring expenses). Due to the adjustment made to certain line items, banking profit is not readily calculable based on the information presented in SMBC's financial statements.

These projections and other forward-looking statements represent management's views and beliefs as at May 24, 2004 (pursuant to the guidelines of the Tokyo Stock Exchange in respect of the publication of certain financial information for the current financial year). Such projections involve known and unknown risks and uncertainties and actual results may differ materially from the projections. The rules of the Tokyo Stock Exchange require SMFG to amend its published projections if SMFG considers that the actual results could be different by certain specified percentages from those previously published. Such amendments may be made at any time and for any reason including a revision of SMBC's projections. The financial position and results of operations of SMBC may be materially affected by various factors including macro-economic trends, share price fluctuations, changes in real estate values, the level of interest rates, exchange rate fluctuations and changes in applicable rules and regulations.

Beginning with the three-month period ended June 30, 2004, in accordance with Tokyo Stock Exchange guidelines, SMFG will publish consolidated quarterly financial information, including certain information relating to SMBC. The guidelines of the Tokyo Stock Exchange do not specify the form or content of such information which is left to individual companies to determine, and such information will not be audited or reviewed by certified public accountants. It is expected that the quarterly financial information will not be comparable with the audited annual financial statements of SMFG or SMBC, in particular, because certain adjustments and the recognition of certain items which are made in the annual audited financial statements and semi-annual unaudited financial statements are expected not to be made. In addition, transactions such as disposals of non-performing loans or securities may occur at such time as SMBC deems appropriate, and their occurrence in any one quarterly period may not be indicative of the aggregate amount of such transactions in the annual or semi-annual period in which they fall. Accordingly, any such quarterly information may not be indicative of SMFG's or SMBC's consolidated semi-annual or annual results of operations or financial condition.

FORMATION OF THE SMBC GROUP AND THE SMFG GROUP

On April 1, 2001, The Sakura Bank, Limited ("Sakura Bank") and The Sumitomo Bank, Limited ("Sumitomo Bank") merged to create the Former-SMBC. Sumitomo Bank was established in 1895 and incorporated as a joint stock corporation with limited liability in 1912. Sumitomo Bank later merged with the Osaka-based Hannan and Ikeda Jitsugyo Banks in 1945, the Kawachi Bank in 1965 and with the Heiwa Sogo Bank in 1986. In 1998, Sumitomo Bank formed an alliance with Daiwa Securities Co. Ltd. through which Sumitomo Bank established Daiwa Securities SMBC Co. Ltd. ("Daiwa Securities SMBC"), formerly Daiwa Securities SB Capital Markets Co., Ltd., as a securities and derivatives joint venture, and an asset management joint venture, Daiwa SB Investments Ltd. ("Daiwa SB Investments"). Sakura Bank was a joint stock corporation with limited liability that was formed in 1990 through the merger of The Mitsui Bank, Limited ("Mitsui Bank") and The Taiyo Kobe Bank, Limited. The Mitsui Bank traced its origins to the Mitsui Exchange House that was founded in Edo (now Tokyo) in 1683. Prior to the April 2001 merger, Sakura Bank operated in Japan as a commercial bank under the Banking Law of Japan (the "Banking Law") and provided a range of wholesale and retail banking services to customers in Japan and overseas.

In order to build upon the benefits realised from the creation of the Former-SMBC, it was determined that a new corporate structure should be adopted utilising a holding company structure. This objective had two aims:

(i) the creation of a corporate structure that was able to fully exploit the strengths of the group; and

(ii) substantial reinforcement of the strategic business lines on a group-wide basis.

Sumitomo Mitsui Financial Group, Inc. was established on December 2, 2002 as the holding company for the SMFG group through a statutory share transfer (*kabushiki iten*) of all of the outstanding equity securities of the Former-SMBC in exchange for SMFG's newly issued securities. SMFG is a joint stock corporation with limited liability (*Kabushiki Kaisha*) incorporated under the Commercial Code. SMFG's head office is located at 1-2, Yurakucho 1-chome, Chiyoda-ku, Tokyo, Japan. Upon formation of SMFG and completion of the statutory share transfer, the Former-SMBC became a direct wholly-owned subsidiary of SMFG.

As part of the strategy for adopting a holding company structure, following establishment, SMFG also acquired direct ownership of several additional subsidiaries and investment previously owned by the Former-SMBC:

- *Sumitomo Mitsui Card and SMBC Leasing.* Two non-bank subsidiaries for accounting purposes of the Former-SMBC — Sumitomo Mitsui Card and SMBC Leasing — were "spun off" to SMFG on February 3, 2003. Each of these transactions was structured as a corporate split under Japanese law, whereby SMBC transferred its shares in these two companies to SMFG at book value. SMFG also purchased the remaining issued and outstanding shares of these two companies from other group companies and unaffiliated shareholders at fair market value on February 3, 2003. As a result of these transactions, Sumitomo Mitsui Card and SMBC Leasing became direct wholly-owned subsidiaries of SMFG. Sumitomo Mitsui Card offers credit card settlement and financing services, and enjoys the widespread brand recognition of the former Sumitomo VISA Card. SMBC Leasing specialises in corporate leasing and rentals for customers' large-scale capital investment needs, providing custom-made solutions and a broad spectrum of products such as equipment and information technology leasing.

- *Japan Research Institute.* On February 3, 2003, SMFG merged with Japan Research Institute Holdings in a statutory merger under Japanese law. In connection with the merger, SMFG issued 0.021 shares of its common stock for each share of common stock of Japan Research Institute Holdings, with SMFG as the entity surviving the merger. As a result of these transactions, Japan Research Institute became a direct wholly-owned subsidiary of SMFG on February 3, 2003. Japan Research Institute is a system integrator, consultant and think-tank that offers comprehensive information services.

- *Daiwa Securities SMBC and Daiwa SB Investments.* Equity stakes in two joint ventures with Daiwa Securities Group Inc. ("Daiwa Securities"), previously held by the Former-SMBC — Daiwa Securities SMBC and Daiwa SB Investments — were transferred to SMFG through a corporate split under Japanese law which became effective on February 3, 2003. Concurrently with the corporate split, SMFG purchased 13.6 per cent. of Daiwa SB Investments' common stock that was previously held by subsidiaries of SMBC. As a result of these transactions, SMFG now holds a 40 per cent. equity stake in Daiwa Securities SMBC and a 44 per cent. equity stake in Daiwa SB Investments.

Following the establishment of SMFG, on March 17, 2003 the Former-SMBC merged with Wakashio Bank. On January 17, 2003, the entire share capital of Wakashio Bank was transferred to SMFG in preparation for the merger of the Former SMBC with Wakashio Bank. Prior to that date, Wakashio Bank had been a subsidiary of the

Former-SMBC. As consideration for the merger, Wakashio Bank subsequently issued new shares at a ratio of 0.007 ordinary share of Wakashio Bank for each ordinary share of the Former-SMBC, and 0.001 preferred share of Wakashio Bank for each preferred share of the Former-SMBC. Upon merger, Wakashio Bank was the surviving legal entity in the merger with the Former-SMBC and was renamed as "Sumitomo Mitsui Banking Corporation" ("SMBC").

There were two principal reasons for the merger between the Former-SMBC and Wakashio Bank. Firstly, the merger was intended to enhance the banking services provided by SMBC to small businesses and individuals. Wakashio Bank was a regional bank based in the Tokyo Metropolitan area that concentrated on providing financing to small businesses and individuals in the local communities in which it operated. It had a distinctive business model based upon local-area-orientated financial services and know-how for low-cost operation. By combining Wakashio Bank's business model with the established brand, high capability for developing sophisticated financial services, nation-wide network and infrastructure (such as the back office operations and systems) of the Former-SMBC, SMBC aimed to improve its responsiveness to the expectations of small businesses and individuals by providing financial services with further value added and convenience, especially in the Tokyo Metropolitan area.

Secondly, the merger aimed to substantially reduce unrealised losses on stocks and land held by the Former-SMBC. The merger accounting rules of Japan permit a merger surplus to be used to eliminate the unrealised losses of the dissolved entity.

In November 2003, SMFG Corporate Recovery Servicer Co., LTD. ("SMFG Corporate Recovery Servicer") was established by SMFG in conjunction with Goldman Sachs (Japan) Ltd. ("GSJ") and Daiwa Securities SMBC Principal Investments Co., Ltd. ("Daiwa Securities SMBCPI") and Development Bank of Japan, to perform the corporate recovery operations of the loan purchase fund which was set up by SMBC, GSJ and Daiwa Securities SMBCPI. See "Recent Events — Recent Business/Corporate Developments — Establishment of a Corporate Recovery Joint Venture Company".

As the ultimate holding company of the SMFG group, SMFG is now responsible for group strategy and management, group resource allocation, group financial accounting, investor relations, group IT strategy, HR management for group executives, group risk management and compliance, compensation schemes and, more generally, in harmonising the operations of SMFG on a group-wide basis in the most efficient way possible.

SMFG has established three sub-committees, namely, the Risk Management Committee, the Compensation Committee and the Nomination Committee, to ensure that adequate corporate governance is exercised.

The business of the SMFG group is carried on through the following directly held subsidiaries and affiliates and their respective subsidiaries:

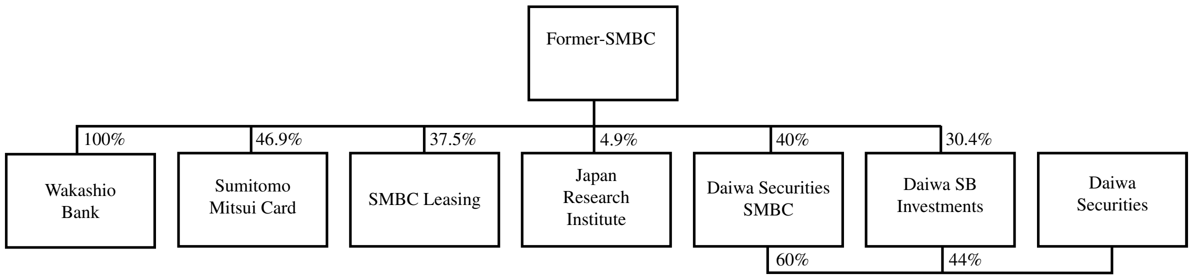
- SMBC
- Sumitomo Mitsui Card
- SMBC Leasing
- Japan Research Institute.

In addition to which SMFG holds direct investments in:

- SMFG Corporate Recovery Servicer
- Daiwa Securities SMBC
- Daiwa SB Investments.

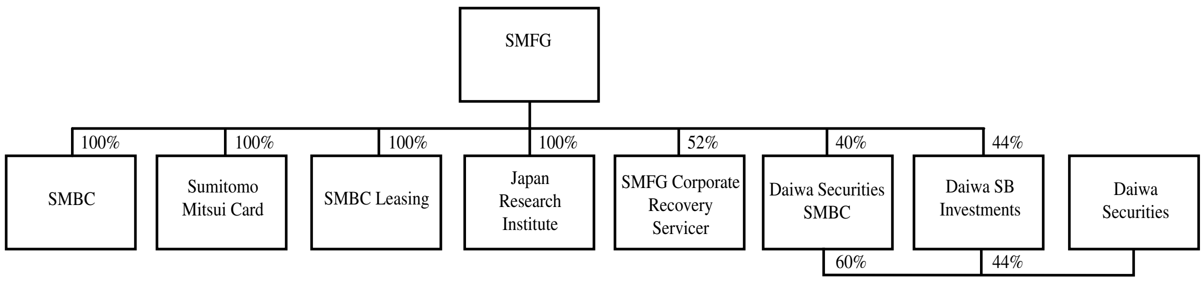
The following diagrams detail the structure of the Former-SMBC (prior to the formation of SMFG as the holding company for SMBC) and current structure of the SMFG group:

Structure Prior to Formation of SMFG and Merger of the Former-SMBC and Wakashio Bank



Note: The percentages shown in this diagram indicate the voting rights the Former-SMBC directly held in the companies prior to the formation of SMFG. The Former-SMBC's consolidated subsidiaries and affiliates held the following additional voting rights: 53.1 per cent. in Sumitomo Mitsui Card; 47.7 per cent. in SMBC Leasing; and 49.3 per cent. in Japan Research Institute.

SMFG Group Structure (as of the end of March 2004)



RECENT EVENTS

Recent Regulatory Developments

Recently, the FSA, the Bank of Japan and other elements of the government of Japan have taken steps designed to restore confidence in the Japanese financial system, address the asset quality problems faced by many Japanese financial institutions, strengthen the capital base and improve governance of major Japanese banks and bring greater stability to the financial system. One of the goals announced in the FSA's Programme of October 2002 is the reduction of the aggregate ratio of non-performing loans to total outstanding loans of major Japanese banks by about half by March 31, 2005. The steps announced or taken by the government include the following:

Administrative Order

On August 1, 2003, the FSA issued an administrative order against SMFG, as well as another 14 banks that have received public funds and recorded net income substantially below their planned net income for the year ended March 31, 2003. The aim of the order was to ensure that these banks would attain their targeted net income in their Revitalisation Plans for the year ended March 31, 2004. The orders included measures requiring the submission, implementation and reporting on Business Improvement Plans. In response, also in August 2003, SMFG submitted such a business improvement plan and has been reporting any progress on a quarterly basis since.

Restrictions on Stockholding

The Law Concerning Restriction on Shareholdings by Banks, which became effective on January 4, 2002, initially required Japanese banks (including bank holding companies) and their subsidiaries to limit the aggregate market value (excluding unrealised gains, if any) of their holdings in equity securities to an amount equal to 100 per cent. of their Tier I capital from September 30, 2004 in order to reduce exposure to stock price fluctuations. Treasury stock, shares issued by subsidiaries or private companies, as well as shares acquired through debt-for-equity swaps in restructurings are excluded from this limitation. Pursuant to an amendment of such law in August 2003, the deadline for such reduction was extended to September 30, 2006.

Tightening of Assessment of Assets

The FSA has announced that it will provide for more rigorous assessment of assets, as follows:

- Japanese GAAP previously allowed for the calculation of reserves to be based upon estimated discounted cash flows of loans to "borrowers requiring caution" and "potentially bankrupt borrowers". However, in October 2002, the FSA required the calculation of reserves on loans to large borrowers classified as "substandard loans" to be based upon projected future recoveries discounted at the loan's original interest rate. Many major Japanese banks previously recorded loan loss reserves for such loans based on historical loan loss experience and the change may affect their loan loss reserve level. SMBC elected to calculate loan loss reserves for certain large substandard borrowers based on their estimated discounted cash flows;
- in January 2003, the FSA began to implement a mechanism to harmonise the major banks' classification of troubled large borrowers;
- debt for equity swaps are valued based upon the fair value of stock received in the swap regardless of the timing or ordering of the swap transaction;
- the FSA requires the use of independent real estate appraisers to appraise real estate held by banks as collateral in certain cases;
- the FSA conducted a further round of special inspections prior to March 31, 2003, in order to review banks' accounts, including those of SMBC. These special inspections were intended, among other things, to uncover deficiencies that may exist in the assessment of non-performing loans and related reserves by banks. The FSA conducted an inspection of a total of 167 borrowers across 11 major Japanese banks, including SMBC, resulting in the downgrade of 27 borrowers (compared to classification given by such banks as at September 2002) and the reclassification of 7 borrowers as "potentially bankrupt borrowers"; and
- from January to April 2004, the FSA conducted another round of special inspections of major Japanese banks. The inspection again focused on 11 major Japanese banks, including SMBC and this time covered 133 borrowers. As a result of this inspection, the FSA downgraded a total of 26 borrowers (as compared

to the classifications given by the banks as at September 2003) and reclassified a total of 22 borrowers as "potentially bankrupt borrowers".

- the FSA established a special team to undertake the examination of corporate restructuring plans.

Improvement of Capital Ratios

Deferred Tax Assets. Under Japanese banking regulations, all deferred tax assets recognised on the balance sheet pursuant to Japanese GAAP are included in regulatory capital. The FSA, noting that deferred tax assets, which are currently included in the calculation of Tier I capital, are "a less solid component of capital", announced that:

- it has requested major banks to assess (and external auditors to audit) deferred tax assets on a more rigorous basis; and

- it had considered whether an upper limit should be imposed on the amount of deferred tax assets that may be included in regulatory capital.

In addition, in October 2003 the FSA requested major banks to enhance their disclosure of information on deferred tax assets in respect of the basis for inclusion as deferred tax assets of taxable income over the past five years, projected amount of actual net business profit assumed in the estimation, projected amount of net income before taxes assumed in the estimation and estimated amount of taxable income before adjustments. See "Business — Capital Adequacy".

On June 22, 2004, the FSA issued a Report of the Working Group on Regulation of Capital Adequacy Ratio, which is one of the subcommittees of the Financial System Council. The Report relates to issues regarding the regulatory treatment of deferred tax assets in calculating capital adequacy ratios and other issues related to capital adequacy of banks. The Report expresses a broad support for the introduction of certain regulations on proper treatment of deferred tax assets in calculating capital adequacy ratios, while emphasising the necessity to consider matters such as the effect of such modification on the Japanese financial system, and consistency with the governmental macro-economic policy and relationship with the tax system. The Report also draws attention to the fact that the major banks are currently aiming to reduce their ratio of non-performing loans to total outstanding loans by half by the end of March 2005 as compared to March 2002 under the FSA's Programme, and recommends that any modification of regulations relating to deferred tax assets should occur after the banks achieve such aims; the Report also recommends that any such modifications should be gradual and with transitional measures. However, the Report does not set out any concrete measures for implementation rather it calls for the FSA to further examine the situation and made a decision based upon the Report.

Request for Tax Law Changes. In the tax reform proposals for fiscal 2003 and 2004, the FSA requested the Japanese Ministry of Finance and Cabinet Office to consider tax law changes intended to improve the capital adequacy of financial institutions. These changes would:

- allow banks to deduct as losses the amount of additional loan loss reserves established as a result of borrowers being classified as "potentially bankrupt borrowers" or lower under Japanese banking laws or banks' self assessments under the supervision and inspection of the FSA and the amount of losses recognised, for accounting purposes, in connection with a partial write-off of a loan;

- allow the "carry-back" of losses to obtain a refund of prior years' taxes, which has been prohibited since April 1, 1992 and prior to that was limited to one year; and

- increase the number of years that operating losses can be "carried forward" and deducted against future income from the current limitation of five years.

In February 2004, the Japanese Ministry of Finance submitted the Tax Reform Act 2004 (the "Act") to the Diet and the Act was enacted on March 26, 2004 and took effect as of April 1, 2004.

The Act addressed the third proposal described above and increased the number of years that operating losses can be "carried forward" and deducted against future income from five years to seven years. The other two proposed changes were not adopted in the Act and may or may not be reviewed or adopted in the Tax Reform Act in the future.

Improvement of Governance

The FSA announced in October 2002, as part of the FSA's Programme, that it will:

- review the standards and measures applicable in the prompt corrective action system, which allows the FSA to require financial institutions to establish a self-assessment programme to assess their capital base using capital adequacy ratios; and
- establish new methods to monitor indicators such as profitability and liquidity to try to detect problems at banks at an earlier stage than at present.

In December 2002, the FSA amended the guidelines for supervision pursuant to which banks that are subject to a prompt corrective action order are required to improve their capital adequacy ratio within one year.

In December 2002, a prompt warning system was introduced to enable the FSA to take precautionary measures in order to maintain and promote sound operations of financial institutions. See "Supervision and Regulation — Japan — Prompt Warning System".

The FSA has also announced that it intends to:

- improve the guidelines for the conversion of preferred stock held by the Japanese government (through the Resolution and Collection Corporation ("RCC")) in financial institutions to common stock if it concludes that the relevant financial institution's business condition has deteriorated significantly and government control would be appropriate; and
- issue administrative orders to financial institutions that submit business improvement plans (due to government ownership) but fail to achieve those business improvement plans.

In April 2003, the FSA published "Tightening application of supervisory actions and clarifying criteria to lower government-held preferred shares" (as amended on August 7, 2003) for further clarification on the application of supervisory actions by the FSA. In relation to supervisory actions, the FSA announced that where a bank or bank holding company failed to improve its business again in the next fiscal year of business, the FSA would take action to require the retirement of the bank or bank holding company's representative executives and staff with equivalent management responsibility, clarify the segregation of the official duties of each board member, review the bank or bank holding company's salary system and suspend bonus payments made to board members.

In relation to the conversion of government-held preferred stock, the FSA announced that conversion will be considered in the event that no dividend payment, or practically no dividend, is made on the preferred stock for two successive years, in the event that the bank or bank holding company's earning performance is considered to have declined, in the event that adequate improvements have not been realised in profits, or in the event that the bank is not able to achieve adequate improvements and there is no prospect of improvement in the bank or bank holding company's capital adequacy ratios. In addition, the FSA will consider the conversion of government-held preferred stock in banks or bank holding companies that are considered to have suffered a substantial decline in confidence and require recovery measures to be undertaken.

Government Support of Distressed Financial Institutions

The FSA announced in October 2002, as part of the FSA's Programme, that if a financial institution falls into financial distress and has inadequate capital to carry on its business, or faces similar prospects, and if it becomes necessary to avoid the threat of financial crisis, the FSA will immediately implement a "special support" framework in co-operation with the Bank of Japan, and inject public funds pursuant to the Deposit Insurance Law and/or request the Bank of Japan to extend emergency loans.

The FSA will obtain significant powers over the management of a financial institution that receives "special support", including the ability:

- to appoint inspectors to attend board of directors meetings and executive committee meetings;
- to strongly urge management to clarify its responsibilities;
- to require such institution to divide its loan accounts into a "new account" and a "revival account" for the purposes of separately monitoring both the ongoing business and the historical loan portfolio; and
- to review business plans submitted to the FSA by those institutions that have received "special support". The "Task Force on Financial Issues" established within the FSA on December 27, 2002 advises troubled

financial institutions as to whether their plans are appropriate and will also advise the FSA on appropriate courses of action if a financial institution is expected to remain unprofitable even after adopting management reforms.

If needed, the Japanese government will inject public funds pursuant to the current Deposit Insurance Law. See ''Supervision and Regulation — Japan — Public Money Injection and Rationalisation Plan''.

In May 2003 the government of Japan responded to a request from Resona Bank for an injection of approximately ¥1.96 trillion of public funds into Resona Bank. In November 2003, the Japanese government announced its decision to take control of Ashikaga Bank, a large regional bank, with approximately ¥5 trillion in assets. The semi-annual financial statements of Ashikaga Bank as at September 30, 2003 indicated that Ashikaga Bank was effectively insolvent, as its liabilities exceeded its assets due to, among other reasons, the recognition of no deferred tax assets. Accordingly, the Deposit Insurance Corporation (''DIC'') acquired all of Ashikaga Bank's stock on December 1, 2003, and is expected to provide Ashikaga Bank with financial assistance in accordance with the Deposit Insurance Law. See ''Supervision and Regulation — Japan — Prompt Corrective Action and Self-Assessment''.

On June 14, 2004, the Strengthening Financial Functions Law was enacted in order to establish a new scheme of public money injection into financial institutions and thereby enhance soundness of such financial institutions and revitalise economic activities in the regions where they do business. The Strengthening Financial Functions Law broadens the range of financial institutions to which public money is available and facilitates preventive injection of public money into troubled financial institutions or financial institutions that are not yet troubled in order to prevent the start of a possible financial crisis. See ''Supervision and Regulation — Japan — Public Money Injection and Rationalisation Plan''.

Improvement of Financial Services Agency Monitoring System

Monitoring Non-Performing Loan Issues. The Task Force on Financial Issues will also monitor the status of a troubled bank's resolution of non-performing loan issues with the goal of resolving such issues by March 31, 2005.

Monitoring Credit Risk Management. The FSA has announced that a new inspection focused on banks' credit risk management for large borrowers will be implemented, and will target major banks whose credit risk management for large borrowers is deemed to be problematic. See ''Supervision and Regulation — Japan — The Financial Services Agency''.

Protection of Small- and Medium-sized Enterprises. The FSA has also issued policy directives designed to prevent any marked deterioration of the financing environment for SMEs in Japan. In particular, the FSA has announced that:

- it will expedite the approval of banking licences for new financial institutions targeting loans to SMEs;
- it has strengthened its monitoring system over financing to SMEs to prevent what the FSA describes as ''unjustified 'credit withdrawal' and other actions taken by financial institutions'';
- it has established ''hotline'' mechanisms to allow SMEs to report an unjustified withdrawal of credit by financial institutions; and
- if serious problems are identified based on these ''hotline'' reports or otherwise, the FSA has indicated that it will take appropriate administrative measures, including issuing administrative orders, requiring the relevant financial institution to submit reports and subjecting the relevant financial institution to additional inspections.

Extension of Deposit Guarantee

On December 11, 2002, the Deposit Insurance Law (and related laws) were amended. Prior to the amendment, guarantees of liquid deposits, such as ordinary deposits and current deposits, were set to be capped at ¥10 million per customer at any one financial institution, beginning April 1, 2003. Under the amended deposit insurance system, DIC will now guarantee in full all current deposits, ordinary deposits and other specified deposits until March 31, 2005. From April 1, 2005, all deposits will be subject to the ¥10 million cap, which is currently applicable only to time deposits, except for non-interest bearing deposits that are redeemable on demand and used by depositors primarily for payment and settlement functions.

New Framework for Corporate Revival

Resolution and Collection Corporation. In accordance with a change in regulations that became effective on January 11, 2002, the RCC has greater authority to purchase non-performing loans at the loans' fair value. Previously, the RCC was required to consider the possibility of collection of principal and the expenses relating to the collection of principal or disposal of loan assets in determining the purchase price for loan assets. Under the new law, the RCC is able to purchase loan assets at a fair market value calculated on a reasonable basis. The FSA has also announced that the RCC will seek:

- to strengthen its corporate revival section;
- to play a role in facilitating the corporate restructuring of borrowers capable of business revival;
- to work with other government-affiliated financial institutions to foster a secondary market for loan assets in Japan; and
- to raise further financing and transfer a portion of its increasingly large loan portfolio through asset securitisations and/or the issuance of asset-backed securities.

Bank of Japan to Acquire Shares from Banks. On October 11, 2002, the Policy Board of the Bank of Japan issued guidelines for the Bank of Japan's purchase of listed stocks from commercial banks whose aggregate value of stockholdings exceed their Tier I capital. The Bank of Japan's guidelines, as amended, contemplate that:

- it will acquire up to ¥3 trillion of stock from commercial banks' portfolios, at prevailing market prices;
- it will only purchase stocks that meet minimum liquidity and issuer credit quality standards and certain other requirements;
- purchases from a single bank will not exceed the lesser of ¥750 billion and the amount by which the market value of a bank's stockholdings exceeds its Tier I capital;
- it will not acquire stock of any single issuer in excess of the lesser of 5.0 per cent. of that issuer's voting shares and value-based purchase limits set by a matrix of annual trading volume and issuer credit quality; and
- it will not sell the acquired securities until after September 2007, although it may sell shares back to the issuer at the higher of market price or purchase price.

The Bank of Japan has indicated that it has adopted this policy for the purpose of assisting commercial banks in reducing the size of their share portfolios without materially adversely affecting prevailing market prices.

Seeking to comply with the legislation prohibiting banks from holding stocks with aggregate market values (less unrealised gains) in excess of their Tier I capital after September 30, 2006, SMBC completed sales of a significant amount of cross shareholdings during the year ended March 31, 2004. The balance of SMBC's consolidated equity portfolio as at March 31, 2004 increased to ¥3.6 trillion, from ¥3.4 trillion as at March 31, 2003. As at March 31, 2004, the market value of SMBC's consolidated equity holding classified as other securities with market value was ¥2.9 trillion and SMBC's consolidated Tier I capital was ¥3.1 trillion, as such, as at March 31, 2004, SMBC was not eligible for the direct purchase scheme operated by the Bank of Japan. As at March 31, 2004, SMBC's equity holding was lower than its Tier I capital on an adjusted basis as defined under the legislation; however, due to possible fluctuations in the value of SMBC's equity portfolio and the level of Tier 1 capital, there can be no assurance that such achievement will be maintained as at September 30, 2006. See "Investment Considerations — Risks Relating to SMBC — Market Risks Affecting SMBC's Equity Portfolio Could Impair SMBC's Financial Condition and Results of Operations".

Establishment of Industrial Revitalisation Corp. As at April 10, 2003 the "Industrial Revitalisation Corporation Law" came into effect. The Industrial Revitalisation Corporation Law established an organisation named the Industrial Revitalisation Corp. (the "IRC") that purchases from financial institutions loans to borrowers that owe substantial debts where it is believed that such borrowers have viable business plans. The IRC is expected to assist the borrower in reorganising its business and operations.

So far SMBC submitted five applications to the IRC jointly with its customers, including Kanebo Ltd. ("Kanebo") and Mitsui Mining Company, Limited ("Mitsui Mining"), and received approval notices from the IRC regarding the financial support to them. See "Business Loan Losses and Non-Performing Loans — Policies with Respect to Troubled Customers".

SMBC's Regional Tax Litigation

On March 30, 2000, the Tokyo Metropolitan Government enacted an ordinance to introduce regional bank taxes based on banks' gross banking profit for five years. On March 26, 2002, the Tokyo District Court adjudicated that the regional bank tax ordinance of the Tokyo Metropolitan Government was founded on a misapplication of local tax law and was therefore invalid, a decision upheld at appeal. In September 2003 the Tokyo Metropolitan Government agreed to retroactively lower its special tax rates and to repay the ¥234.4 billion it had collected from around 30 banks since April 2000. On October 7, 2003, SMBC received a ¥38,236 million tax refund and ¥2,127 million interest on the tax refund and on October 8, 2003, the case was formally settled at the Supreme Court. The tax refund and interest were accounted for as "Other income" in the consolidated statement of income for the year ended March 31, 2004.

Osaka Prefecture had introduced a similar bank tax on June 9, 2000, which was also challenged in the court by a consortium of banks. This litigation was settled upon the resolution of the litigation with the Tokyo Metropolitan Government; however, no tax refund was paid by Osaka Prefecture, as the application of the special tax rates had been deferred pending the outcome of the litigation.

Recent Business/Corporate Developments

Establishment of a Corporate Recovery Joint Venture Company

On October 8, 2003, SMFG agreed to jointly establish a joint venture company, SMFG Corporate Recovery Servicer, with GSJ and Daiwa Securities SMBCPI. The joint venture was established as a subsidiary of SMFG in which SMFG owns the majority equity interest (52 per cent.), with GSJ, Daiwa Securities SMBCPI and Development Bank of Japan having an equal equity participation of 16 per cent. each. SMBC, GSJ and Daiwa Securities SMBCPI have formed a loan purchase fund to purchase loans from SMBC and other financial institutions. The loan purchase fund delegates the corporate recovery operations to SMFG Corporate Recovery Servicer to develop and execute recovery plans within the targeted period of three years from the time of purchase.

Reorganisation of Group Companies in the SME and Housing Loan Businesses

In order to further strengthen its SME and housing loan businesses by concentrating management resources and streamlining decision-making processes, two holding companies, SMBC Financial Business Planning Co., Ltd. ("SMBC FBP") and SMBC Loan Business Planning Co., Ltd. ("SMBC LBP"), have been established by SMBC by way of corporate split (*shinsetsu kaisha bunkatsu*) under the Commercial Code, in April 2004, and in the process, two companies involved in the SME loan business and four companies involved in the housing loan business which had hitherto been direct subsidiaries of SMBC have become subsidiaries of SMBC FBP and SMBC LBP, respectively. The reorganisation of group companies in the SME and housing loan businesses will have no effect on SMBC's consolidated net assets, as the transactions relating to the reorganisation are actually those among companies under SMBC's control.

Strategic Alliance with Promise

On June 21, 2004 SMFG and Promise Co., Ltd. ("Promise") announced an intention to enter into a strategic alliance in the consumer finance business. SMFG and Promise intend to enter into both a business and a capital alliance, with the aim of bringing together resources, such as brand names, customer base, expertise and experience in order to establish a strong consumer finance business in Japan by meeting customers' various finance needs and providing attractive products.

As part of the business alliance, SMBC and Promise intend to jointly develop new consumer loan models which are to target a wide range of customers in need of immediate financing and will offer a variety of products with different interest rates linked to the credit standing of the prospective customer through SMBC's marketing channels and a faster credit approval process. It is envisaged that as part of this alliance a new joint venture company will be set up to undertake part of the new business, and that Promise will guarantee loans to be made by SMBC and such new joint venture company, as well as providing support by offering expertise in marketing, credit monitoring and loan collections.

It is intended that The Japan Net Bank, Limited, a SMFG subsidiary, will enter into a comprehensive strategic alliance with Promise starting with the consumer loan business, while future possible projects may include collaborations of Promise with other SMFG subsidiaries, such as Sumitomo Mitsui Card and SAKURA CARD CO., Ltd. In addition SMFG and Promise intend to exchange personnel on different levels to increase the mutual understanding of their businesses.

As part of the capital alliance between SMFG and Promise, SMBC has purchased approximately 15 per cent. of Promise's outstanding shares. SMBC intends to further increase its shareholding in Promise to 20 per cent. of its outstanding shares as and when appropriate opportunities for purchase arise.

SMFG further intends to obtain a seat on Promise's Board of Directors, subject to shareholder approval. Once the planned changes take effect Promise will be accounted for as an affiliate of SMBC accounted for by the equity method.

BUSINESS

Sumitomo Mitsui Banking Corporation (*Kabushiki Kaisha Mitsui Sumitomo Ginko*) is a joint stock corporation with limited liability (*Kabushiki Kaisha*) under the laws of Japan. The registered head office of SMBC is located at 1-2, Yurakucho 1-chome, Chiyoda-ku, Tokyo, Japan.

SMBC is one of the world's leading commercial banks, with ¥99.8 trillion in consolidated total assets as at March 31, 2004. SMBC provides an extensive range of wholesale and retail banking services in Japan and overseas to its customers. In Japan, SMBC accepts deposits, makes loans and extends guarantees to corporations, individuals, governments and governmental entities. SMBC also underwrites and deals in bonds issued by or under the guarantee of the Japanese government and local government authorities, and acts in various administrative and advisory capacities for certain types of corporate and government bonds. Internationally, SMBC operates through a network of branches, representative offices, subsidiaries and affiliates to provide syndicated lending, project finance and portfolio management services while participating in international securities markets.

Except as indicated, the information herein with respect to SMBC is presented on a consolidated basis. In addition, any references to SMBC with regard to the period prior to the merger of March 17, 2003, refer principally to the operations, aims and achievements of the Former-SMBC. See "Note Regarding Financial Information".

History

SMBC was formed on March 17, 2003 through the merger of the Former-SMBC with Wakashio Bank. The Former-SMBC had been formed on April 1, 2001 through the merger of Sakura Bank and Sumitomo Bank. Wakashio Bank was established in June 1996 as a subsidiary of Sakura Bank.

On January 17, 2003, Wakashio Bank became a subsidiary of SMFG in preparation for the merger. Prior to that date, Wakashio Bank had been a subsidiary of the Former-SMBC. Wakashio Bank was operating as an urban community bank with operations in the Tokyo metropolitan area, which focused on providing financial services to small businesses and individuals while maintaining low cost operations. Wakashio Bank was the surviving legal entity in the merger with the Former-SMBC and, following the merger with the Former-SMBC, changed its corporate name (in English) to "Sumitomo Mitsui Banking Corporation (SMBC)". As part of the merger with the Former-SMBC, Wakashio Bank mostly retained the management team and structure of the Former-SMBC.

SMBC is a wholly owned subsidiary of Sumitomo Mitsui Financial Group, Inc. SMFG was formed as the holding company for the SMFG group through a statutory share transfer (*kabushiki iten*) under the Commercial Code, on December 2, 2002 as a joint stock corporation with limited liability under the laws of Japan. See "Formation of a Holding Company Structure and Merger".

Strategy

SMBC's strategic objective is to strengthen its position as a leading domestic and international financial group by:

- improving its profitability in consumer banking through a more focused customer segmentation, broadening its range of profitable products and services and achieving a lower cost structure;
- achieving a higher return on its assets in transactions with domestic and overseas corporate borrowers;
- initiating new international banking initiatives based on a more selective regional focus;
- investing strategically in information technology in order to strengthen its competitiveness in database marketing and providing network platforms to serve small- and medium-sized corporate customers; and
- establishing a leading position in the provision of internet-related financial services.

SMBC will seek to improve its banking profit by:

- adjusting the terms and conditions of its financial products and services, such as the interest rates on wholesale loans, to improve its risk-return profile;
- expanding its more profitable loan businesses, such as home mortgage lending and SME loans;

- strengthening its fees and commissions business, such as the investment banking business and the distribution of investment trust products and individual annuity products to retail customers; and
- instituting cost-cutting measures, such as reducing personnel and other expenses while allocating resources to focused business areas.

SMBC has also been replacing many of its retail branch offices with specialised distribution facilities, incorporating advanced technologies, providing new services to retail customers, such as telephone banking and Internet banking, and reorganising its middle market corporate lending branch offices into corporate business offices.

Various business environmental considerations affect SMBC's overall strategy. Noteable considerations include, but are not limited to, indications of a recovery of the domestic economy, continuing financial deregulation in Japan, increased competition from domestic and foreign competitors, consolidation in domestic and international financial sectors and the increasing interdependence of national economies and financial markets. SMBC's strategy reflects its judgement regarding the most effective means of confronting the challenges posed and exploiting the opportunities afforded by these considerations, in light of a careful assessment of SMBC's strengths and weaknesses.

A recovery of the domestic economy is likely to affect SMBC's loan portfolio, with a further focus on small- to mid-sized loans acting positively. Increase in domestic equity prices also increases the value of SMBC's portfolio of equity securities. SMBC's earnings are affected by any rise in domestic interest rates, as well as the fluctuations of international interest rates and foreign currency rates.

In particular, SMBC is currently in the stage of developing an even stronger operating and financial base for the SMBC Group. Further strengthening of SMBC's balance sheet with future focus on the acceleration of the enhancement of profitability, including further improvement of cost competitiveness, are action plans clearly identified in its strategy as follows:

Strengthening of the Balance Sheet

During the year ended March 31, 2004, SMBC continued to strengthen its balance sheet by further reducing the financial risks associated with non-performing loans and stockholdings.

In particular, SMBC will continue ''off-balancing'' problem loan assets classified as doubtful assets or lower through measures such as asset sales and corporate revitalisation. In addition, SMBC intends to continue to apply strict policies for corporate borrowers in relation to substandard assets and intends to accelerate its initiative for the revitalisation of borrowers and work-outs, including outright sales, through the Asset Restructuring Unit.

In the year ended March 31, 2004, SMBC reduced the book value of its stockholdings mainly through outright sales and currently intends to further reduce stock price fluctuation risk. For the year ended March 31, 2004, SMBC reduced its equity portfolio to below the level of SMBC's consolidated Tier I capital and plans to continue this disposal process during the current fiscal year.

Enhancing profitability

Historically, banking profit (excluding transfer to general reserve for possible loans losses)(1) has been regarded as one traditional measure of Japanese banks' core earning power. On a non-consolidated basis, SMBC recorded banking profits of ¥1,114 billion yen and ¥1,000 billion yen in the years ended March 2003 and 2004 respectively. As a consequence, SMBC has recorded more than ¥1 trillion yen of annual banking profit (excluding transfer to general reserve for possible loans losses) for the last three consecutive years.

In order to further enhance profitability, SMBC intends to take steps such as optimising the risk-return profile of its loan portfolio by increasing loan spreads, expanding credit-risk-taking in small and middle market banking and loan syndications in corporate banking. In consumer banking, SMBC intends to expand home mortgage lending and develop business models for consulting services.

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(1) Banking profit (excluding transfer to general reserve for possible loans losses), a commonly used indicator of the profitability of banking operations among Japanese banks, is calculated as follows: net interest income (adjusted to exclude expenses incurred in connection with the management of money held in trust) + net trading revenue + net fees and commissions + net other operating income — general and administrative expenses (adjusted to exclude non-recurring expenses). Due to the adjustment made to certain line items, banking profit is not readily calculable based on the information presented in SMBC's financial statements.

On the cost side, SMBC currently aims to improve cost competitiveness by continuation of a strategy of further streamlining the workforce and other new initiatives. SMBC reduced expenses to ¥584 billion on a non-consolidated basis in the year ended March 31, 2004, a year ahead of the original schedule for such reduction. SMBC currently intends to continue to employ cost-cutting measures, while allocating sufficient resources to promote businesses of strategic importance.

SMBC intends to build on the advantages of the holding company structure which established SMFG, and make use of the benefit of the creation of a corporate structure fully exploiting the strengths of the SMFG group by establishing group-wide corporate governance, management structure and management systems; and the reinforcement of the strategic business lines on a group-wide basis by redefining corporate strategy and improving the autonomy to the businesses, clarifying the responsibility and enhancing delegation, enhancing the incentive system and allocating resources aggressively.

Operations

SMBC conducts its primary banking business through the following business units: (i) the Consumer Banking Unit, (ii) the Middle Market Banking Unit, (iii) the Corporate Banking Unit, (iv) the International Banking Unit, (v) the Treasury Unit, (vi) the Investment Banking Unit, (vii) the Asset Restructuring Unit and (viii) the Community Banking Unit.

SMBC's domestic marketing operation is managed by the Consumer Banking Unit, the Middle Market Banking Unit and the Corporate Banking Unit and incorporates two types of domestic offices: (i) branch offices serving consumer clients and (ii) corporate business offices serving small- and medium-sized corporate clients. Domestic operations are also carried out through the Community Banking Unit.

SMBC had a domestic network consisting of 435 branch offices, 132 sub-branches as at March 31, 2004, most of which are located in the Tokyo and the Osaka regions of Japan and managed by the Consumer Banking Unit and the Community Banking Unit. In addition to providing full-service banking operations at many of its branches, SMBC also operates satellite offices that provide specialised services such as housing loans, which are also managed by the Consumer Banking Unit.

As at March 31, 2004 SMBC had 184 corporate business offices managed by the Middle Market Banking Unit.

SMBC's international network is managed by the International Banking Unit and the Investment Banking Unit and consisted of 20 branches, 3 sub-branches, 14 representative offices, 39 subsidiaries and 12 affiliates and associated companies as at March 31, 2004, creating a presence for SMBC in more than 25 countries.

Consumer Banking Unit

The Consumer Banking Unit offers various retail banking products and services including private banking, asset management and long-term asset building. SMBC considers that it is currently a leader among Japanese banks in terms of investment trust sales, outstanding volume of housing loans and the number of customer accounts. The Consumer Banking Unit's central theme is *''One's Next''*, which means that it aims to assist customers in achieving the next level of their financial objectives according to their stage in life. This includes, for example, assisting customers in their long-term planning for retirement or for down payments to secure housing loans, managing their assets and providing housing loans and loans for education.

One of the main products offered by the Consumer Banking Unit is housing loans for residential purposes. The amount of such housing loans (excluding bridge loans) originated by SMBC in the year ended March 31, 2004 was ¥1,675.5 billion, and the amount of housing loans outstanding as at March 31, 2004 was ¥8,891.6 billion.

The operations of the Consumer Banking Unit are largely conducted through a large and well-developed branch network. SMBC has been continuing to streamline and strengthen this network by consolidating overlapping branches and transforming them from transaction centres to marketing bases. The transformation process requires a review of each branch's infrastructure, based on location and market size to determine the most suitable functions and physical layout. SMBC also makes use of call centres to provide customers with an additional access channel. In addition, consultancy services are available at 7 ''SMBC Consulting Plazas'' which provide longer business hours and special facilities at convenient locations, and 109 ''Loan Plazas'', which are dedicated to promoting housing loans.

SMBC also operates an extensive network of automated teller machines (ATM) in Japan which allow its customers to conduct self-service banking transactions during extended hours. As at March 31, 2004, SMBC's

ATM network included 6,985 full-service ATMs and cash dispensers, including 1,190 24-hour ATMs that are located in "am/pm" convenience stores through its alliance with am/pm Japan Co., Ltd. In addition, SMBC offers its customers ready access to 15,998 ATMs and cash dispensers through arrangements with other ATM providers (including convenience stores). SMBC also offers payment and settlement services for consumer customers that can be accessed through ATMs located in convenience stores as well as through the telephone and the Internet.

The Consumer Banking Unit also offers internet banking services through *"One's Direct"*. As at March 31, 2004, *"One's Direct"* was one of the largest online services operated by a Japanese bank with approximately 4.8 million registered users. Users of *"One's Direct"* are able to transfer funds, perform balance inquiries and time deposits, and conduct foreign currency, deposit and investment trust transactions over the telephone, Internet or mobile phone Internet service. In September 2000, SMBC established Japan Net Bank, Ltd. as the first Internet bank in Japan for retail customers. Through this continuously-available Internet outlet, SMBC offers relatively high interest rates on deposits and low service charges to its customers in comparison to other domestic providers.

The Consumer Banking Unit also offers the following products and services:

- *New-type account service.* In November 2003, SMBC launched a new-type account service named *"One's Style"*, which is offered exclusively to customers in their 20s and 30s. Primary features of *"One's Style"* include bankcards with loan and settlement functions, an online bank record system which customers can access via a personal computer or their cellular phone and discounts of certain transaction fees. This new service aims to offer appealing financial products to the age group that accounts for the majority of customers who open new accounts and customers who apply for credit cards and card loans.

- *New-type investment product.* In February 2004, SMBC launched a new-type investment product named *"One's Life"*, which is available only to the customers who receive and hold their retirement payment in their bank accounts with SMBC. In the first stage of *"One's Life"*, SMBC applies a special interest rate to the time deposits which the customers make with their retirement payments. In the second stage, when the newly made time deposits fall due, SMBC offers three types of investment plans, from which the customers can choose according to their investment policy and preference.

- *Investment trust products.* The Consumer Banking Unit provides a variety of investment trust products with varying degrees and types of risk/return profiles which are developed and managed by experienced investment management companies within Japan and overseas. The Consumer Banking Unit generally focuses on the distribution, rather than the development, of investment trust products. The aggregate face amount of investment trust balances for individuals outstanding as at March 31, 2004 on a non-consolidated basis was approximately ¥1,920 billion.

- *Individual annuity products.* In October 2002, SMBC started offering individual annuity products, whereby customers make payments of fixed amounts until they reach a certain age, from which point set amounts at specified intervals will be paid to the customers. The accumulated sales amount of such products from their introduction to March 31, 2004 amounted to ¥479.6 billion.

- *Consumer finance products and services.* Through Sumitomo Mitsui Card (which is now a direct subsidiary of SMFG and is a charter member of VISA International) and SAKURA CARD CO., Ltd., SMBC offers personal credit services including the issuance of various credit cards, consumer loans and guarantees. As at March 31, 2004, Sumitomo Mitsui Card had approximately 13 million cardholders (with aggregate expenditures totalling approximately ¥3.3 trillion annually). SMBC also provides small, unsecured consumer loans to individuals through At-Loan Co., Ltd. under the brand name "@Loan" through a joint venture with Sanyo Shinpan Finance Co., Ltd., Nippon Life Insurance Company and am/pm Japan Co., Ltd.

Middle Market Banking Unit

The Middle Market Banking Unit focuses on building a "solution business" capable of rapidly addressing the diversified needs of small and medium-sized businesses. The Middle Market Banking Unit serves its customers by providing products and services involving traditional lending, cash management, settlement, leasing, factoring, management information systems consulting, collection and investment banking, some of which are offered in co-operation with Daiwa Securities SMBC.

SMBC also expanded sales channels which function as service locations exclusively for SMEs and sole proprietorships throughout Japan from 128 as of March 31, 2003 to 164 as of March 31, 2004.

The Middle Market Banking Unit also provides the following services to its small and medium-sized business customers:

- *Business promotion services.* The Middle Market Banking Unit, through its Business Promotion Department, focuses on customers in growth industries such as the semiconductor, biotechnology, information technology, environmental services and health care industries. The Business Promotion Department analyses and evaluates a customer's technologies, marketability and growth prospects and introduces it to appropriate capital sources, such as the new business support fund which is an unsecured financing system. SMBC's subsidiary, SMBC Capital Co., Ltd, also assists companies in the start-up stages with their capital requirements. SMBC Leasing, which is now a direct subsidiary of SMFG, provides small and medium-sized businesses with leasing services. The Business Promotion Department also advises on initial public offerings and on the implementation of capital strategies.

- *Restructuring advisory services.* In October 2001, the Business Reengineering Department was formed within the Business Promotion Department to provide assistance to small and medium-sized business customers restructuring their business.

- *Lending.* The Middle Market Banking Unit offers unsecured loans through a scheme called "N fund" in addition to previously released *"Business Select Loan"* ("BSL"), both of which, by nature of the products, offer appropriate returns and greater spreads (and therefore profit opportunities) for SMBC. BSLs are unsecured loans for SMEs with annual sales of less than ¥1 billion, with a maximum amount of ¥50 million per transaction, and employ highly sophisticated credit scoring models in the origination process. N funds are also unsecured loans, but are targeted to larger SMEs, with a maximum amount of ¥5 billion per transaction, and employ a simplified and standardised credit check on origination by treating the borrower as one of the borrowers of a portfolio based on the segment such as borrower's industry. SMBC initiated N fund to a total amount of ¥2,121 billion and BSL to a total amount of ¥734 billion during the year ended March 31, 2004. SMBC plans to continue to increase its lending to SMEs using a lending strategy that involves increasing the spread on its loans over time to achieve a more appropriate risk-adjusted return on its corporate loan portfolio. SMBC has started revising lending practices that include modified terms and conditions of its loans as well as the adjustment of interest rates to better reflect the risk profile of borrowers, and in strengthening its capacity to strategically take more credit risk. In addition, SMBC has strengthened areas such as credit analysis, loan applications procedures (including the standardisation of check lists), cash flows analysis for loan applications and prescribing the use of loans.

- *Services to promote B-to-B transactions.* The Middle Market Banking Unit also offers an internet-based product, *"SMBC Financial Link"*, to provide various products and services of SMBC and group companies in a single package. These products and services include settlement services, the extension of credit, authorisation services and bill collection services. Customers can also use *"Value Door"*, a product that allows customers using a personal computer to access services of SMBC's subsidiaries and affiliates that meet their needs. SMBC has promoted *"Value Door"* as a main product to stimulate greater demand for SMBC's "solution business" for SMEs. The "*Value Door*" website was inaugurated in May 2001 and had approximately 70,000 corporate users as at May 31, 2004.

Corporate Banking Unit

The Corporate Banking Unit's primary mission is to function as a reliable source of sophisticated solutions for Japan's large corporations. The Corporate Banking Unit provides a full range of banking services to these clients including syndicated loans, credit line commitments and non-recourse loans. With respect to its large corporate customers, SMBC has focused its lending activities on Japan based customers while providing other fee-based services, such as cash management services, to its Japanese customers operating overseas. SMBC intends to promote the use of the capital markets for a greater proportion of these customers' funding and corporate restructuring needs, particularly through the involvement of Daiwa Securities SMBC.

International Banking Unit

The International Banking Unit assists Japanese corporate customers to develop in overseas markets and multinational companies to succeed in Japan. The International Banking Unit maintains a strong branch network in the Asian region as well as in the Americas and Europe, and leverages SMBC's strong relationships with major Japanese corporations. The International Banking Unit offers a variety of services and products, such as non-recourse syndicate financing, securitisation arrangements, global cash management systems and yen custody services, to its global clients.

Treasury Unit

The Treasury Unit operates in the domestic and international money, foreign exchange, securities and derivatives markets to serve the needs of SMBC's customers and SMBC's own asset liability management requirements, while maintaining market and liquidity risks at appropriate levels. To further expand SMBC's customer base and to respond to its customers' increasingly diverse and complex needs, SMBC has a Treasury Marketing Department to enhance the Treasury Unit's sales capabilities by providing a single department to specialise in customer transactions involving marketable products.

The Treasury Unit also offers the following services:

- *Government bond underwriting.* Through the Treasury Unit SMBC acts as an underwriter in Japan for national government bonds, government-guaranteed bonds and local government bonds.
- *Commercial paper placement.* Through the Treasury Unit SMBC acts as a placement agent for commercial paper programmes for qualified corporate issuers.

Investment Banking Unit

The Investment Banking Unit provides a broad range of sophisticated financial products and services in connection with capital markets financings, management buyouts, real estate and lease financing, asset securitisations and asset management and other services. The Investment Banking Unit accesses customers needs and offers its products and services through the Middle Market Banking Unit, the Corporate Banking Unit and the International Banking Unit.

The Investment Banking Unit also offers the following products and services:

- *Asset management.* SMBC's asset management services are provided through Daiwa SB Investments and Sumitomo Mitsui Asset Management Company Limited. SMBC has been cooperating with these companies to develop and offer investment trust products and manage customer funds. As at March 31, 2004, these companies together had ¥15.1 trillion in assets under management.
- *Pensions.* In response to the introduction of "defined contribution" pension plans in Japan in October 2001, the Investment Banking Unit offers consulting, plan management services and employee investment education related to this pension system through Japan Pension Navigator Co., Ltd. Established in September 2000, Japan Pension Navigator Co., Ltd. is capitalised by SMBC and five other financial services companies belonging to the Sumitomo group and the Mitsui group.
- *Corporate bond trust services.* SMBC serves as a trustee or co-trustee of corporate mortgage bonds and corporate general mortgage bonds. SMBC also serves as a commissioned company for bondholders and as a registrar, paying and fiscal agent for unsecured public bond offerings by domestic and foreign customers. In this role, SMBC advises the issuer of market conditions and undertakes certain procedural matters on behalf of the issuer.
- *Asset securitisation trust services.* SMBC has been offering other trust services to its customers since October 2002, including monetary claims trusts for asset securitisations.

Asset Restructuring Unit

The Asset Restructuring Unit was established on December 2, 2002 for a temporary three-year period to aid SMBC's corporate customers in revitalising their operations and restructuring their finances. SMBC expects this realignment of customers' finances to accelerate improvements in the quality of SMBC's loan portfolio in advance of the implementation of the new Basel Accord. On establishment the following departments were transferred from other business units and integrated into the Asset Restructuring Unit: the Credit Administration Department (transferred from the Corporate Service Unit), the Credit Supervision Departments I and II (transferred from the Middle Market Banking Unit) and the Credit Departments II and III (transferred from the Corporate Banking Unit). In addition, the Asset Restructuring Unit incorporates a Planning Department that is staffed by specialists who provide advice to corporate customers with respect to restructuring such as through securitisations, debt for equity swaps, management buyouts, leveraged buyouts, mergers, corporate splits, debtor-in-possession financing and bulk sales, as well as legal and accounting professionals.

Community Banking Unit

The Community Banking Unit is responsible for the operations that, prior to the merger with the Former-SMBC, were originally undertaken by Wakashio Bank. The Community Banking Unit succeeded to the branch network established by Wakashio Bank and will address the significant challenges of enhancing business for SMEs and individuals through the combination of the Community Banking Unit's knowledge and the capabilities of SMBC for providing sophisticated financial services.

Other Business Activities

In addition to the activities of the business units described above, SMBC also engages in the following business activities:

- *Payment services.* SMBC handles money remittances for municipalities, public and private corporations and individuals both within Japan and overseas. Domestic remittance services are significant in Japan where checks are rarely used and money remittance is a major means of payment. SMBC also handles the presentation and collection for its customers of promissory notes, bills of exchange and checks.
- *Foreign exchange.* SMBC engages in a variety of foreign exchange transactions for its clients and for its own account, including foreign currency exchange, overseas transfers and trade finance for export and import activities.

Other Business Activities through Subsidiaries and Alliances

SMBC conducts some of its operations through subsidiaries and joint ventures of both SMBC and SMFG. SMBC may need to provide capital and funding to these companies in the future. Many of SMBC's subsidiaries and joint ventures involve the contribution of significant equity capital and, in the case of the wholesale securities joint venture, the provision by SMBC of credit support to the joint venture to the extent necessary to enable the joint venture to fully participate in the derivatives markets. In addition, the wholesale securities joint venture agreements relating to Daiwa Securities SMBC provide that SMFG and Daiwa Securities will make such additional equity capital contributions through 2004 in proportion to their respective shareholdings as may be necessary to avoid the imposition of any restrictions on its businesses as a result of insufficient legal or regulatory capital.

SMBC is party to an alliance with the Mitsui and Sumitomo group insurance companies (Mitsui Mutual Life Insurance Company (''Mitsui Life''), Sumitomo Life Insurance Company (''Sumitomo Life''), and Mitsui Sumitomo Insurance Company, Limited (''Mitsui Sumitomo Insurance'')) to bolster its insurance operations. The alliance includes the following specific areas of co-operation:

- mutual sharing of distribution channels among the Mitsui and Sumitomo group insurance companies;
- conducting joint research and development activities with Mitsui and Sumitomo group insurance companies relating to hybrid products that combine insurance and financial products;
- reorganising the asset management businesses of the alliance members;
- transferring the operations of Mitsui Life's non-life insurance subsidiary to Mitsui Sumitomo Insurance; and
- expanding the exchange of personnel among the alliance partners.

On December 1, 2002, SMBC, Mitsui Life, Sumitomo Life and Mitsui Sumitomo Insurance merged their five asset management subsidiaries to form Sumitomo Mitsui Asset Management Company, Limited, in which they hold 17.5 per cent., 30.0 per cent., 35.0 per cent. and 17.5 per cent., respectively. As at March 31, 2004, the company had approximately ¥11.7 trillion in total assets under management. A committee to steer the alliance, made up of senior managing directors, managing directors and officers of a similar rank at the alliance partners, is in place to assure that actions are taken as quickly and effectively as possible to fulfil the objectives of the alliance.

Transactions with Goldman Sachs

On January 15, 2003, SMFG, SMBC and Goldman Sachs jointly announced a series of related transactions, which closed on February 7, 2003. The transactions have three primary components: (i) the purchase by Goldman Sachs of convertible preferred stock of SMFG having a liquidation preference equal to ¥150.3 billion; (ii) the provision by SMBC to Goldman Sachs' affiliates of first loss credit protection up to an aggregate of U.S.$1 billion and additional second loss credit protection of up to U.S.$1.125 billion, to mitigate in part the credit risk to Goldman Sachs associated with certain credit extensions to its investment grade clients; and (iii) the enhancement and development of certain business co-operation understandings between SMBC and Goldman Sachs.

Credit Loss Protection

In connection with these agreements with SMFG and SMBC, Goldman Sachs has established certain wholly-owned subsidiaries (the ''William Street Entities'') to be available to make credit commitments and extensions. In order to hedge in part the credit risk to its investment in the William Street Entities arising from these credit-extension activities, Goldman Sachs has entered into credit loss protection arrangements with SMBC. SMBC, through its Cayman Islands branch, will issue letters of credit in exchange for fees in an amount equal to a portion of the fees and interest to be paid by the borrowers to the William Street Entities. One letter of credit (the first letter of credit, or ''FLC''), which was issued on February 7, 2003 in a maximum available amount of U.S.$1 billion and is available over a 20-year period, subject to early termination or extension. In addition, from time to time over a 20-year period, subject to early termination or extension and subject to the satisfaction of certain conditions, upon the request of Goldman Sachs, SMBC will issue one or more additional five-year letters of credit (each a second letter of credit, or ''SLC Series'') rated BBB/Baa2 or higher in an aggregate maximum available amount of U.S.$1.125 billion. Goldman Sachs may draw on the letters of credit in the event that Goldman Sachs realises certain losses (''Losses'') with respect to loan commitments or loans extended thereunder that Goldman Sachs has entered into with specified borrowers approved by SMBC and Goldman Sachs.

Under the FLC, Goldman Sachs will be entitled to draw from time to time amounts equal to approximately 95 per cent. of Losses, up to an aggregate stated amount of U.S.$1 billion. Under the SLC Series, Goldman Sachs will be entitled, subject to certain conditions, to draw from time to time amounts equal to approximately 70 per cent. of Losses above specified loss thresholds, up to an aggregate stated amount of U.S.$1.125 billion.

In connection with these credit arrangements, SMBC will pay Goldman Sachs an administration fee based on the aggregate amount of commitments covered by the FLC.

The credit loss protection arrangements contain a number of provisions that confer on SMBC certain controls over the determination of borrowers in respect of which it has potential exposure under the FLC and any SLC Series.

First, Goldman Sachs is authorised to make credit commitments covered by the arrangements to only those borrowers approved by SMBC.

Second, except as SMBC and Goldman Sachs may otherwise agree, the borrowers covered by the FLC and any SLC Series that are rated by both of the two major rating agencies must be rated investment grade by both such rating agencies, and borrowers that are rated only by one of the two major rating agencies must be rated investment grade by such rating agency. If neither of the two major rating agencies provide ratings for a borrower, such borrower shall no longer be covered by FLC or any SLC series, if such borrower has credit conditions determined by SMBC and Goldman Sachs to be lower than those rated investment grade.

Third, in the event the ratings of a borrower approved by SMBC fall below investment grade in the judgment of both major rating agencies (or, if a borrower is rated investment grade by only one agency, that agency downgrades the borrower below investment grade), further extension of credit to such borrower will no longer be covered by these arrangements, unless SMBC and Goldman Sachs otherwise agree.

Fourth, at the fifth, tenth and fifteenth anniversaries of the transaction, SMBC will have the right to cause Goldman Sachs to suspend the extension of the new credit to borrowers deemed by SMBC to have become ''unbankable''. ''Unbankable'' borrowers are those who, notwithstanding the investment grade ratings accorded them by the two major rating agencies, are deemed by SMBC to be below BB- and below Ba3 based on SMBC's application of rating agency methodologies and criteria. If Goldman Sachs disagrees with a suspension decision made by SMBC, the matter is to be referred to arbitration, and the suspension is effective unless and until an arbitrator rules in favor of Goldman Sachs.

SMBC, through a separate bankruptcy-remote Cayman Islands subsidiary, has collateralised the obligations on the FLC and a portion of the SLC Series by purchasing U.S.$1.375 billion of Goldman Sachs demand notes and pledging those demand notes to Goldman Sachs. In the event that Goldman Sachs activates an SLC Series that is not otherwise collateralised, SMBC, through its Cayman Islands subsidiary, will be required to purchase and pledge additional Goldman Sachs demand notes in a principal amount equal to the stated amount of such SLC Series. In certain circumstances and subject to certain conditions, SMBC will have the right to substitute as collateral high quality liquid securities for the Goldman Sachs demand notes.

These arrangements are designed to collateralise SMBC's obligations in the event SMBC's Cayman Island branch fails to perform on the FLC or any SLC Series, including as a result of the insolvency of SMFG, SMBC or SMBC's Cayman Island branch.

In the event that the credit rating of Goldman Sachs, as determined by either of the two major credit rating agencies, falls below investment grade, Goldman Sachs shall be obligated to provide collateral to SMBC to support Goldman Sachs' obligations under the afore-mentioned Goldman Sachs demand notes. After an initial 15-year period under the letters of credit, SMBC and Goldman Sachs will negotiate in good faith to extend the terms of the letter of credit arrangements for one additional five-year term following the expiration of the initial 20-year term. In certain circumstances, the letter of credit arrangements with SMBC may be terminated by SMBC or Goldman Sachs, in which event Goldman Sachs would be required to prepay any outstanding demand notes. In certain circumstances related primarily to the creditworthiness of SMBC or a breach of its representations or covenants, Goldman Sachs may draw on the letters of credit for "early termination amounts" of up to the remaining undrawn or available amount on the letters of credit. In connection with such draws of early termination amounts, Goldman Sachs would be required to prepay any outstanding demand notes. Goldman Sachs also would be obligated to pay to SMBC on the originally scheduled expiration date of the letter of credit arrangements an amount equal to the early termination amounts minus the Losses that would have been reimbursed under the letters of credit had they not terminated early.

Business Co-operation

As part of the agreements, SMBC and Goldman Sachs are seeking to further develop their business relationship in Japan. Specifically, they have entered into a business co-operation agreement that will afford Goldman Sachs certain rights with respect to asset sales of SMBC and its affiliates and debtors, SMBC's Japan-related equity offerings, investment banking services for SMBC and its affiliates and customers, investments in merchant banking transactions in Japan and access to SMBC's retail distribution network in Japan for investment trust products. The agreement will afford SMBC certain rights with respect to the provision of commercial banking services by SMBC in Japan to customers of Goldman Sachs and participation by SMBC as a syndicate lender in Goldman Sachs-led syndicated loans for Japan-related credits. Various of Goldman Sachs' rights under this agreement are subject to priorities of affiliates of SMBC and are generally applicable only where practically possible, legally permissible and economically reasonable. The agreement will be effective for five years, with automatic one-year extensions occurring for up to an additional 15 years so long as Goldman Sachs holds at least 50 per cent. of the GS Preferred Stock initially issued (or common stock issued on conversion of the GS Preferred Stock). The agreement can be terminated by either party if Goldman Sachs does not hold at least 20 per cent. of the GS Preferred Stock initially issued (or common stock issued on conversion of the GS Preferred Stock).

Preferred Stock Purchase

On February 8, 2003, Goldman Sachs purchased convertible preferred stock (the "GS Preferred Stock") of SMFG at a purchase price, and with a liquidation preference, equal to ¥150.3 billion. Annual noncumulative cash dividends will be paid at a rate of 4.5 per cent. of the liquidation preference. The GS Preferred Stock ranks on a parity with other preferred stock of SMFG and is senior to the SMFG common stock.

The GS Preferred Stock was transferred to GSSM Holding Corp., a wholly-owned subsidiary of Goldman Sachs, on September 11, 2003.

Regulatory Capital Considerations

Under the regulatory capital guidelines in place in Japan, the GS Preferred Stock is considered Tier I capital. Under current regulatory capital guidelines in place in Japan, SMFG would apply standard, *i.e.* 8 per cent., capital requirements in respect of the FLC. It is possible that, under proposed international regulatory capital guidelines, SMFG would be required to hold 100 per cent. capital against the FLC. One half of this capital would be required to be held as Tier I capital, and one half as Tier II capital.

Corporate Recovery Joint Venture Company

In November 2003, SMFG Corporate Recovery Servicer was established by SMBC in conjunction with GSJ, Daiwa Securities SMBCPI and Development Bank of Japan, to perform the corporate recovery operations of the loan purchase fund which was set up by SMBC, GSJ and Daiwa Securities SMBCPI. See "Recent Events — Recent Business/Corporate Developments — Establishment of a Corporate Recovery Joint Venture Company".

Revenues by Region

For the year ended March 31, 2004, 87 per cent. of SMBC's ordinary income was derived from operations based in Japan while the remaining 13 per cent. of SMBC's ordinary income was principally derived from operations based in Europe, the Americas and Asia (excluding Japan). For the year ended March 31, 2003, SMBC's ordinary income derived from operations based in Japan amounted to 84 per cent. with approximately 16 per cent. being derived from overseas operations.

Funding

SMBC derives funding for its operations from a variety of domestic and international sources. SMBC's domestic funding is primarily derived from retail deposits placed with SMBC by its corporate and individual customers, but also from call money (interbank), bills sold (interbank promissory notes) and negotiable certificates of deposit issued by SMBC to its domestic and international customers. SMBC's principal international sources of funds are inter-bank deposits, funds raised in the international capital markets and loan financing. In addition, positive cash flows generated by SMBC's operations provide a steady source of additional funding. SMBC closely monitors maturity gaps and foreign exchange exposure with a view towards managing its risk profile.

The following table illustrates the composition of SMBC's funding (interest-bearing liabilities) by average balances and related interest and average interest rates as at March 31, 2003 and 2004. Average balances are based on a daily average.

	Year ended March 31,					
	2003			2004		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	(millions of yen, except percentages)					
Interest-bearing liabilities:						
Deposits:						
Domestic	¥58,316,729	¥ 63,326	0.11%	¥59,917,916	¥ 50,922	0.08%
Overseas	3,994,367	89,254	2.23	3,404,225	55,119	1.62
Elimination	(24,473)	(216)	—	(168,421)	(1,301)	—
Total	62,286,624	152,364	0.24	63,153,721	104,741	0.17
Negotiable certificates of deposit:						
Domestic	5,739,513	2,074	0.04	4,281,885	847	0.02
Overseas	200,607	5,503	2.74	96,735	2,697	2.79
Elimination	—	—	—	—	—	—
Total	5,940,120	7,578	0.13	4,378,620	3,545	0.08
Call money and bills sold:						
Domestic	10,166,594	1,109	0.01	7,186,407	1,242	0.02
Overseas	168,107	2,614	1.56	123,925	1,355	1.09
Elimination	—	—	—	—	—	—
Total	10,334,702	3,724	0.04	7,310,332	2,598	0.04
Payables under repurchase agreements:						
Domestic	1,036,569	74	0.01	1,711,425	105	0.01
Overseas	1,059,369	18,111	1.71	354,094	4,107	1.16
Elimination	—	—	—	—	—	—
Total	2,095,938	18,185	0.87	2,065,520	4,212	0.20
Payables under securities lending transactions:						
Domestic	3,853,983	28,830	0.75	5,090,264	48,622	0.96
Overseas	—	—	—	—	—	—
Elimination	—	—	—	—	—	—
Total	3,853,983	28,830	0.75	5,090,264	48,622	0.96

	Year ended March 31,					
	2003			2004		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	(millions of yen, except percentages)					
Commercial paper:						
Domestic	¥ 268,052	¥ 380	0.14%	¥ 6,997	¥ 4	0.07%
Overseas	—	—	—	—	—	—
Elimination	—	—	—	—	—	—
Total	268,052	380	0.14	6,997	4	0.07
Borrowed money:						
Domestic	3,559,473	80,487	2.26	2,050,391	59,038	2.88
Overseas	212,650	6,168	2.90	113,752	2,179	1.92
Elimination	(997,898)	(34,275)	—	(853,821)	(30,134)	—
Total	2,774,225	52,380	1.89	1,310,322	31,084	2.37
Bonds:						
Domestic	2,537,030	38,045	1.50	2,781,324	43,278	1.56
Overseas	1,159,507	38,169	3.29	1,004,354	31,577	3.14
Elimination	(369)	(11)	—	—	—	—
Total	3,696,169	76,202	2.06	3,785,679	74,855	1.98
Total interest-bearing liabilities:						
Domestic	86,428,380	241,920	0.28	83,510,193	225,847	0.27
Overseas	6,812,607	209,909	3.08	5,109,984	100,641	1.97
Elimination	(1,023,785)	(34,473)	—	(1,023,064)	(31,435)	—
Total	¥92,217,203	¥417,356	0.45%	¥87,597,113	¥295,053	0.34%

SMBC reduced the interest rates it paid on deposits from 0.24 per cent. during the year ended March 31, 2003 to 0.17 per cent. during the year ended March 31, 2004. This was mainly due to a decline in the average interest rate on domestic deposits from 0.11 per cent. to 0.08 per cent. year on year, reflecting the continued low market rates.

Deposits

A complete range of standard banking accounts, including current deposits, ordinary deposits, savings deposits, deposits at notice, time deposits and negotiable certificates of deposit are offered through SMBC's branches in Japan and are the principal source of funding for SMBC's domestic operations. SMBC's domestic deposits are principally from private individuals and corporations with the balance coming from government bodies (including municipal authorities) and financial institutions. SMBC's total amount of domestic yen deposits of ¥65,447 billion was one of the largest among Japanese city banks as at March 31, 2004. Domestic deposits in currencies other than yen are not material.

SMBC's overseas branches accept deposits mainly in U.S. dollars but also in yen and other foreign currencies and are active participants in the Euro-currency market as well as the United States domestic money market. In addition, the New York, Singapore and Hong Kong branches of SMBC and Sumitomo Mitsui Banking Corporation Europe Limited, a subsidiary of SMBC, regularly issue U.S. dollar certificates of deposit. Sumitomo Mitsui Banking Corporation Europe Limited and other overseas branches of SMBC also issues certificates of deposit denominated in U.S. dollars and in other currencies. As at March 31, 2004, overseas deposits amounted to ¥3,535 billion, representing approximately 5.1 per cent. of total deposits.

The following tables show a breakdown of domestic and overseas deposits of SMBC as at the dates indicated:

	As at March 31, 2003	As at March 31, 2004
	(millions of yen)	
Domestic Deposits		
Liquid deposits	¥34,812,728	¥36,880,645
Time deposits	20,588,487	20,308,522
Other deposits	4,258,026	4,766,398
Subtotal	59,659,242	61,955,566
Negotiable certificates of deposit	4,776,264	3,491,393
Total domestic deposits	¥64,435,507	¥65,446,960
Overseas Deposits		
Liquid deposits	¥ 2,733,493	¥ 2,865,697
Time deposits	593,179	564,776
Other deposits	10,089	8,036
Subtotal	3,336,761	3,438,510
Negotiable certificates of deposit	112,753	96,070
Total overseas deposits	¥ 3,449,515	¥ 3,534,580

For the year ended March 31, 2004, total domestic deposits increased mainly due to the increase of liquid deposits.

The majority of domestic deposits with SMBC are liquid deposits in yen. Such deposits pay interest at rates established by SMBC and based principally on prevailing market rates. Most overseas deposits with SMBC are interbank deposits at notice denominated in dollars or other foreign currencies. Such deposits typically pay interest at rates determined by reference to market rates for deposits in London with major money-centre banks.

The following tables set forth the composition of SMBC's time deposits by types and maturity (on a non-consolidated basis) as at the dates indicated:

	Maturity as at March 31, 2004						
	Less than Three Months	Three Months to Less than Six Months	Six Months to Less than One Year	One Year to Less than Two Years	Two Years to Less than Three Years	Three Years and Over	Total
	(millions of yen)						
Non-consolidated							
Domestic fixed rate time deposits(1)	¥5,867,505	¥2,887,104	¥5,140,864	¥1,586,227	¥1,373,356	¥800,904	¥17,655,962
Domestic floating rate time deposits(1)	11,500	—	—	—	—	59,650	71,150
Total domestic time deposits(2)	5,879,005	2,887,104	5,140,864	1,586,227	1,373,356	860,554	17,727,112
Total international time deposits	344,150	23,164	16,335	24,946	9,812	11,688	430,098
Total time deposits	¥6,223,156	¥2,910,269	¥5,157,199	¥1,611,174	¥1,383,168	¥872,242	¥18,157,210

(1) For purposes of this table, time deposits outstanding do not include instalment time deposits, which have no stated maturity.

(2) Includes off-shore account deposits.

Euro Medium Term Note Programmes

SMBC has a Euro Medium Term Note Programme which permits SMBC and certain of its subsidiaries to have outstanding not more than ¥1 trillion aggregate nominal amount of notes at any given time. The Euro Medium Term Note Programme allows for the issuance of senior and subordinated notes. SMBC also succeeded Sakura Bank to two Euro Medium Term Note Programmes which permit certain of its subsidiaries to issue subordinated notes (although no new issues of notes through such subsidiaries are made under these former Sakura Bank programmes). As at March 31, 2004, there were ¥974 billion aggregate nominal amount of notes outstanding under these three programmes, of which ¥120 billion were senior notes, ¥588 billion were dated subordinated notes and ¥267 billion were perpetual subordinated notes.

Public Funding

As part of a government-funded bank recapitalisation programme designed to strengthen Japan's financial system, on March 31, 1999 Sumitomo Bank issued ¥501 billion of preferred stock and on March 31, 1999 Sakura Bank issued ¥800 billion of preferred stock to RCC, an entity established pursuant to the Law Concerning Emergency Measures for Early Strengthening of Functions of the Financial System. The preferred stock issued by Sumitomo Bank were issued at a price of ¥3,000 per share (¥1,500 of which was accounted for as stated capital). The preferred stock issued by Sakura Bank were issued at a price of ¥1,000 per share (¥500 of which was accounted for as stated capital). In the process of establishing SMFG through a statutory share transfer (*kabushiki iten*) which took effect as of December 2, 2002, these preferred stocks were transferred from RCC to SMFG in exchange for preferred stocks of SMFG (Type 1, Type 2 and Type 3) newly issued with effectively the same terms and conditions as those of the corresponding preferred stocks of the Former-SMBC held by RCC. ¥201 billion of the preferred stock (Type 1) are convertible into common stock of SMFG at any time from December 2, 2002 until February 26, 2009, ¥300 billion of the preferred stock (Type 2) are convertible into common stock of SMFG at any time from August 1, 2005 until February 26, 2009, and ¥800 billion of the preferred stock (Type 3) are convertible into common stock of SMFG at any time from December 2, 2002 until September 30, 2009, in each case subject to certain adjustments to the conversion period.

As a condition to the application for these public funds, Sakura Bank and Sumitomo Bank were required to submit rationalisation plans to the Financial Reconstruction Commission (the "FRC") (integrated into the FSA as of January 2001) in March 1999. These plans are updated in semiannual reports to the FSA, as required by Article 5.4 of the Financial Function Early Strengthening Law, which state the progress achieved toward the goals of the rationalisation plans. On April 4, 2003, the FSA announced its decision to tighten the application of supervisory action and clarify the criteria governing the conversion of government-held preferred stock in order to improve corporate governance of those banks and bank holding companies (including SMFG) that have received public funds (as amended on August 7, 2003). Where a bank or bank holding company's earning conditions worsen, firstly, the FSA will take supervisory actions which include requiring reports to be submitted by a bank or bank holding company and taking business improvement administrative orders under the Banking Law. Where such bank and bank holding company becomes significantly undercapitalised, the FSA will consider converting preferred stock. See "Recent Events — Recent Regulatory Developments — Improvement of Governance".

Other Sources of Funding

SMBC's additional sources of funding include call loans and other interbank funding arrangements (other than interbank deposits), repurchase agreements using JGBs, both senior and subordinated loans from institutional investors on a worldwide basis and other sources.

SMBC also has access to funding through loans by the Bank of Japan. Borrowings from the Bank of Japan require SMBC to pledge collateral consisting of JGBs and certain other qualifying collateral.

SMBC's need for money market funding decreased substantially as a result of its increased deposits. Additionally, SMBC's loan originations decreased due to weak loan demand which further reduced SMBC's demand for money market funds.

Assets

The following table shows SMBC's interest-earning assets according to average balances and related interest and average interest rates for the years ended March 31, 2003 and 2004. Average asset balances are based on a daily average.

	Year ended March 31,					
	2003			2004		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	(millions of yen, except percentages)					
Interest-earning assets:						
Loans and bills discounted						
Domestic	¥57,714,603	¥1,091,736	1.89%	¥54,452,750	¥1,016,646	1.87%
Overseas	6,252,263	204,679	3.27	5,064,994	148,501	2.93
Elimination	(997,898)	(34,275)	—	(853,787)	(30,152)	—
Total	62,968,968	1,262,140	2.00	58,663,957	1,134,996	1.93
Securities						
Domestic	21,671,434	216,056	1.00	23,090,843	230,993	1.00
Overseas	1,745,522	58,303	3.34	1,036,961	35,639	3.44
Elimination	(369)	(5,518)	—	—	(10,031)	—
Total	23,416,587	268,840	1.15	24,127,804	256,601	1.06
Call loans and bills bought						
Domestic	627,785	1,936	0.31	547,686	1,840	0.34
Overseas	120,354	2,242	1.86	101,843	2,200	2.16
Elimination	—	—	—	—	—	—
Total	748,139	4,179	0.56	649,529	4,040	0.62
Receivables under resale agreements						
Domestic	120,981	3	0.00	33,898	3	0.01
Overseas	100,914	1,348	1.34	127,275	2,538	1.99
Elimination	—	—	—	—	—	—
Total	221,896	1,352	0.61	161,173	2,542	1.58
Receivables under securities borrowing transactions						
Domestic	1,254,675	225	0.02	515,980	104	0.02
Overseas	—	—	—	—	—	—
Elimination	—	—	—	—	—	—
Total	1,254,675	225	0.02	515,980	104	0.02
Deposits with banks						
Domestic	823,298	12,822	1.56	666,233	6,972	1.05
Overseas	970,063	22,153	2.28	703,330	7,008	1.00
Elimination	(23,800)	(216)	—	(151,999)	(1,301)	—
Total	1,769,561	34,759	1.96	1,217,563	12,679	1.04
Total interest-earning assets						
Domestic	83,803,278	1,436,074	1.71	80,116,238	1,363,268	1.70
Overseas	9,690,916	421,432	4.35	7,391,661	238,922	3.23
Elimination	(1,023,112)	(39,980)	—	(1,006,609)	(41,485)	—
Total	¥92,471,081	¥1,817,526	1.97%	¥86,501,290	¥1,560,705	1.80%

Loans

General

SMBC's principal investing activity is its lending business. SMBC makes loans and extends other types of credit principally to corporate and individual customers in Japan, and to corporate and sovereign customers abroad.

The following tables set forth the composition of SMBC's loans and bills discounted by type of interest rate charged and maturity (on a non-consolidated basis) as at the dates indicated:

	Maturity as at March 31, 2004						
	One Year or Less[1]	More than One Year to Three Years	More than Three Years to Five Years	More than Five Years to Seven Years	Over Seven Years	Unspecified Term	Total
	(millions of yen)						
Non-consolidated							
Floating interest rate	¥ —	¥5,500,484	¥3,950,114	¥1,715,055	¥14,822,715	¥8,342,570	¥ —
Fixed interest rate	—	2,722,707	1,501,759	522,223	1,066,156	—	—
Total	¥10,666,356	¥8,223,191	¥5,451,873	¥2,237,279	¥15,888,872	¥8,342,570	¥50,810,144

(1) Loans with a maturity of one year or less are not classified by floating or fixed interest rates.

As at March 31, 2004, ¥32,298 billion, or 63.6 per cent., of SMBC's loan portfolio consisted of secured or guaranteed loans. SMBC usually takes real estate collateral on its domestic corporate loans. SMBC extends collateralised housing loans and unsecured consumer finance loans to its retail customers. SMBC's housing loans are usually guaranteed by SMBC Guarantee Co. Ltd. ("SMBC Guarantee"), its guarantee subsidiary.

The following table sets forth SMBC's loans outstanding (including bills discounted) classified by class of collateral (on a non-consolidated basis) as at the dates indicated:

	As at March 31,			
	2003		2004	
	(millions of yen, except percentages)			
Non-consolidated				
Class of collateral:				
Securities	¥ 805,685	1.41%	¥ 1,025,755	2.02%
Commercial claims	1,253,179	2.19	1,311,345	2.58
Commodities	4,579	0.00	2,595	0.01
Real estate	8,531,366	14.89	7,490,743	14.74
Other	479,374	0.84	363,678	0.71
Total secured loans	11,074,186	19.33	10,194,118	20.06
Guaranteed[1]	22,177,530	38.72	22,103,891	43.50
Unsecured	24,030,649	41.95	18,512,134	36.44
Total	¥57,282,365	100.00%	¥50,810,144	100.00%

(1) Including housing loans guaranteed by SMBC Guarantee. These are not categorised as guaranteed loans in SMBC's consolidated financial statements.

SMBC is subject to lending limits under the Banking Law. See "Supervision and Regulation — Japan — The Financial Services Agency — Credit Limit".

Domestic Lending

SMBC makes loans to, and discounts bills of, a broad range of industrial, commercial and individual customers in Japan. SMBC's domestic lending business consists principally of the extension of small loans to individuals and SMEs. As at March 31, 2004, 27.4 per cent. of SMBC's domestic loans and bills discounted were to individuals, 50.5 per cent. were to SMEs which are defined as companies with a capital stock of ¥300 million or less, or with less than 300 employees, subject to certain exceptions applicable to specific industries, and 22.1 per cent. were to large corporations. However, SMBC also has substantial lending relationships with larger businesses, including many of the leading companies of Japan.

The following tables show the outstanding loans (including bills discounted) of SMBC's domestic offices, before deduction of reserves for possible loan losses, as at the dates indicated. Classification of loans by industry is based on industry segment loan classifications as defined by the Bank of Japan for regulatory reporting purposes and is not necessarily based on use of loan proceeds.

	As at March 31,			
	2003		2004	
	(millions of yen, except percentages)			
Domestic Offices[1]:				
Manufacturing	¥ 6,321,452	11.17%	¥ 6,133,208	11.92%
Agriculture, forestry, fishing and mining	207,514	0.37	142,574	0.28
Construction	2,630,118	4.65	1,950,119	3.79
Transportation, communication and other public enterprises	3,076,295	5.44	3,270,116	6.36
Wholesale and retail	6,235,896	11.02	5,871,202	11.41
Financial and insurance	4,543,927	8.03	4,035,142	7.84
Real estate	9,015,365	15.94	7,948,701	15.45
Services	6,172,685	10.91	6,177,383	12.01
Municipalities	577,100	1.02	765,640	1.49
Other	17,789,591	31.45	15,153,844	29.45
Total	¥56,569,948	100.00%	¥51,447,932	100.00%

(1) The above figures exclude Tokyo offshore accounts for international financial transactions. Loans and bills discounted, classified by industry regarding "domestic offices excluding offshore banking accounts" are based on the "Japan Standard Industrial Classification" as revised by public notice No. 139 from the Ministry of Public Management, Home Affairs, Posts and Telecommunications, which was released on March 7, 2002 and took effect on October 1, 2002.

As part of its business operations, SMBC regularly lends funds to individuals and SMEs.

The following tables show a breakdown of SMBC's domestic loan portfolio by type of borrower (on a non-consolidated basis) as at the dates indicated:

	As at March 31,			
	2003		2004	
	(billions of yen, except percentages)			
Non-consolidated				
Individuals	¥12,775.2	23.7%	¥13,130.9	27.4%
SMEs	26,225.0	48.7	24,229.9	50.5
Large corporations[1]	14,878.7	27.6	10,590.7	22.1
Total	¥53,878.9	100.0%	¥47,951.5	100.0%

(1) Includes medium-sized enterprises with a capital stock of more than ¥300 million or with more than 300 employees.

SMBC is expanding its lending to individuals in Japan while simultaneously attempting to manage its risk/return profile. The outstanding balance at March 31, 2004 of SMBC's loans to individuals (almost all of them in Japan) was ¥13,130.9 billion. Most of SMBC's outstanding loans to individuals at March 31, 2004 consisted of housing-related loans.

The aggregate amount of loans to SMEs reflected in SMBC's accounts decreased in the year ended March 31, 2004. SMBC's long-term strategy includes expansion of lending to SMEs. As a prerequisite to its receipt of public funding in 1999, SMBC submitted its rationalisation plan to the Japanese government, in which SMBC stated its intention to increase its lending to small-sized companies.

Housing loans to individuals are generated through SMBC's branch network. Consumer loans to individuals are provided by SMBC and its subsidiaries and affiliates, including At-Loan Co., Ltd., a subsidiary which operates its own distribution network principally through the am/pm convenience stores. Loans to SMEs are generated through the Middle Market Banking Unit, which operates SMBC's corporate business offices. Loans to large corporations are generated by the Corporate Banking Unit. In the Corporate Banking Unit, individual account managers work with SMBC's corporate customers. Loans originated by corporate business offices can be approved by the general manager of SMBC's Corporate Banking Department up to a limit which varies depending upon the amount and duration of the loan, the type and amount of collateral and other factors. Loans above this limit require approval from SMBC's head offices either in Tokyo or Osaka, and such head office approval entails review by two departments. Industry analysts in the Corporate Research Department review the market position and the industry characteristics of corporate customers, and evaluate (among other things) the strength of management, assets, financial performance, prospects and risks of such customers. In addition, SMBC uses a sophisticated tool, the Obligor Grading Model, to evaluate credit applications. Credit analysts within the Credit Department evaluate specific extensions of credit, analysing, among other things, the adequacy of collateral or other credit support, use of proceeds, leverage and interest and cash flow coverage. Larger loans require the approval of one or more directors of SMBC. SMBC also has a Credit Review Department to oversee the credit risk management system.

The majority of SMBC's domestic loans are secured by collateral or are supported by guarantees. Most domestic secured loans consist of loans to businesses secured by first liens on real estate collateral or housing loans to individuals guaranteed by SMBC Guarantee. Such guarantees are secured by first liens on apartments or houses. Real estate collateral is generally valued based on asset values rather than cash flow. In principal, real estate collateral is valuated by an appraisal firm affiliated with SMBC. Most of the appraisal is valuated based upon participation of licensed appraisers.

SMBC, like other banks in Japan, makes most domestic loans based on a short-term interest rate, the Tokyo Inter-Bank Offered Rate (''TIBOR'') and a long-term prime rate, which are generally intended to reflect the cost of funds.

Most domestic short-term loans (being loans with a maturity of less than one year) made by SMBC bear interest at a rate based on a short-term interest rate or TIBOR. SMBC establishes a short-term rate based principally on its cost of short-term yen funding. SMBC's short-term prime rate is affected by changes in the Bank of Japan's official discount rate, the rate at which the Bank of Japan extends short-term secured loans to domestic banks.

Most domestic long-term loans (being loans with a maturity of one year or more) made by SMBC bear interest at a rate based on SMBC's new basis long-term prime rate, which is based on the short-term prime rate reflecting the fact that most of SMBC's funding is short-term. The old basis long-term prime rate is set at a rate equal to 90 basis points above the 5-year debenture rate of long-term credit banks. Currently, only a limited number of loans are based on the old basis long-term prime rate.

Unsecured loans in the domestic interbank market are mostly overnight loans priced at call market rates. Call market rates are negotiated rates based on the availability of, and the need for funds by Japanese banks.

Despite the relaxed monetary policy of the Bank of Japan after the ''bubble'' era, prime rates in Japan have been relatively stable since the year ended March 31, 2000. This is mainly because short-term interest rates, such as the six-month TIBOR, have declined to nearly zero and the prime rates, which will be adjusted according to the change in short-term interest rates, have little room for further decline.

The following table sets forth SMBC's short-term, long-term prime rate (old basis and new basis), five-year swap rate and six-month TIBOR as at the dates indicated:

	As at March 31,	
	2003	**2004**
Short-term prime rate	1.375%	1.375%
Long-term prime rate (new basis)	1.875	1.875
Long-term prime rate (old basis)	1.500	1.650
Five-year swap rate	0.27	0.745
Six-month TIBOR	0.07	0.099

Overseas Lending

SMBC's overseas branches and representative offices originate corporate, sovereign and quasi-sovereign loans. Most of these loans are unsecured and are denominated in currencies other than Japanese yen. While most of SMBC's international loans are to foreign credits, a significant portion of SMBC's international loans are to overseas branches, subsidiaries and affiliates of Japanese corporations, and many of such loans to such subsidiaries and affiliates are guaranteed or otherwise supported by the Japanese parent corporations.

Loans originated by a branch or representative office can be approved by the general manager up to a limit which varies depending upon the rank of the general manager and other factors. Loans above this limit require approval from regional headquarters or SMBC's head office in Tokyo. The roles of the Corporate Research Department and the International Credit Department are credit grading and credit supervision, respectively. Larger international loans require the approval of one or more directors of SMBC.

The overseas business of SMBC has been principally focused on lending to large, highly-rated corporations as well as to sovereign and quasi-sovereign credits. The following tables show the outstanding loans (including bills discounted) of SMBC's overseas offices, before deduction of reserves for possible loan losses, as at the dates indicated, classified according to type of borrower:

	As at March 31,			
	2003		2004	
	(millions of yen, except percentages)			
Overseas Offices[1]:				
Public sector	¥ 141,742	3.05%	¥ 81,737	2.05%
Financial institutions	314,695	6.77	338,458	8.50
Commerce and industry	3,912,861	84.15	3,317,645	83.34
Other	280,369	6.03	243,193	6.11
Total	¥4,649,668	100.00%	¥ 3,981,034	100.00%

(1) The above figures include Tokyo offshore accounts for international finance transactions.

Because most of SMBC's overseas loans are general-purpose credits to highly rated corporate, sovereign and quasi-sovereign credits, most of them are not secured by collateral. However, SMBC makes substantial secured loans overseas, including for project finance, equipment financing and margin lending for securities and commodities. SMBC's overseas loans are generally extended at floating rates based on the London Interbank Offered Rate ("LIBOR"). Spreads on such loans are negotiated with customers and reflect competition with other domestic and international banks as well as alternative funding sources available to customers.

Loans made by SMBC to customers outside Japan in highly leveraged corporate transactions (loans made in connection with recapitalisations, acquisition transactions or other corporate restructurings to customers whose debt to total asset ratio will exceed 75 per cent. or 50 per cent. under certain circumstances), except with respect to loans to customers located in Indonesia (discussed below), are not material relative to SMBC's total assets at March 31, 2004. SMBC intends to continue to participate in such loans to the extent that credit risks are deemed prudent and a satisfactory level of return is offered, although SMBC expects that the portion of SMBC's loan portfolio attributable to such loans will not materially increase.

Loan Losses and Non-Performing Loans

General

SMBC has experienced substantial loan losses in recent years. SMBC's financial results reflect actual loan losses as well as transfers to reserves for possible loan losses.

SMBC reviews its loans in the following ways. First, SMBC conducts semiannual self-assessments to calculate appropriate write-offs and reserves by classifying borrowers according to their financial soundness. Second, SMBC categorises the non-performing loans pursuant to, and provides disclosure under, the Law Concerning Emergency Measures for Financial Function Reconstruction Law (Law No. 132 of 1998) as amended (the "Financial Reconstruction Law"). Third, SMBC calculates and discloses the value of risk monitored loans based on the Banking Law (which excludes non-loan assets such as foreign exchange, accrued interest and advanced payments). SMBC also discloses loans to specific overseas countries.

The Japanese economy has suffered for more than a decade from stagnant or negative growth and severely limited availability of credit. As a consequence, and compounding the effect of declining real estate prices, large numbers of businesses and individuals have become insolvent and have entered bankruptcy proceedings or have obtained partial forgiveness of their debts or other relief. Consequently, SMBC and other Japanese banks have suffered significant loan losses relating to loans to such businesses and individuals or relating to loans to financial institutions that extended credit to them. As a consequence of these trends, a number of Japanese banks, including SMBC, have for an extended period been faced with serious loan portfolio quality problems, as well as with the difficult issue of determining the realisable values of their non-performing assets and the amounts that should be reserved against them.

SMBC has in recent years recognised substantial loan losses as a result of these trends. In accordance with SMBC's self-assessment policy, the reserve for possible loan losses reflects an estimate of the amount of losses that SMBC may incur in connection with its loan portfolio. The reserve does not necessarily reflect the entire amount of loan losses that may ultimately be realised in respect of existing loans. SMBC seeks, through the restructuring of loans or collection efforts, to maximise the return on non-performing loans. SMBC's Credit Risk Management Department is dedicated to managing non-performing loans and maximising the level of recoveries on loans which have been written-off. However, such returns are frequently limited by economic and legal impediments to restructuring and collection, including adverse domestic economic conditions in Japan that limit the operating profitability of customers, limited liquidity of the domestic market for real estate and the prevalence of second and third mortgages on real estate over which SMBC holds first liens (which can delay the disposal of such collateral and decrease the recoverable amount).

Policies with Respect to Troubled Customers

In the past, SMBC has provided direct and indirect support to troubled customers for a variety of reasons. For example, SMBC has provided support to customers where operating profitability or asset values indicate the likelihood of a successful restructuring. In addition, SMBC, like other banks in Japan, has provided support in the past to troubled customers under circumstances, and based upon considerations, that may differ in kind or degree from those relevant in other countries, including the United States and Europe. These include political and regulatory influences, relationships with members of the Sumitomo group and the Mitsui group, the lead bank system and perceived responsibility for obligations of affiliated and associated companies. While the importance of some of these considerations has been declining, these considerations nevertheless have significantly affected SMBC's actions on a number of occasions in recent years. SMBC has also been subject to political and regulatory influences that affect SMBC's willingness to support troubled customers. In some cases, SMBC has been induced by such considerations to extend credit or forgive indebtedness under circumstances where short-term economic considerations would have suggested other action.

SMBC may be influenced by its relationships with other members of the Sumitomo group and the Mitsui group to provide financial support. SMBC, like other Japanese banks, has provided financial support to affiliated or associated companies in the past. Third parties dealing with such companies frequently have an expectation, which may be implicitly or explicitly ratified by SMBC, that SMBC will provide financial assistance in the event that such affiliated or associated companies experience financial difficulties. SMBC has provided substantial support to SMBC Leasing, SMBC Finance Service Co., Ltd. (formerly known as Sumigin General Finance), SMBC Mortgage Co., Ltd. (formerly known as Sakura Mortgage), SMBC Guarantee (formerly known as Sakura Guarantee) and Sumigin Guarantee in recent years. Assistance to affiliated companies could consist of the forgiveness of loans by SMBC, the extension of loans by SMBC to facilitate the repayment of other indebtedness or equity investment. SMBC has provided financial assistance to certain financially distressed retail and construction companies in the form of debt forgiveness, debt for equity swaps and the acquisition of new shares.

SMBC has made a strategic decision to extend financial support to distressed customers only in situations where SMBC expects a positive return from such support. However, SMBC may face difficulties in implementing this strategy and there can be no assurance that SMBC's decision to provide financial support will not be influenced by the factors mentioned above.

Japanese real estate, wholesale and retail, service, finance and insurance and construction companies have been severely and adversely affected by the prolonged economic weakness in Japan. The losses of companies in these industries can be partly traced to direct and indirect investment in real estate and to the decline of major public and private sector development projects initiated during the "bubble" era. SMBC has significant exposure to a number of companies in these industries. As at March 31, 2004, to the domestic industries, SMBC had an exposure of ¥7,949 billion to the real estate industry (15.45 per cent. of total domestic loans), ¥5,871 billion to the wholesale and retail industry (11.41 per cent. of total domestic loans), ¥6,177 billion to the service industry (12.01 per cent. of total domestic loans), ¥4,035 billion to finance and insurance companies (7.84 per cent. of total domestic loans) and ¥1,950 billion to the construction industry (3.79 per cent. of total domestic loans).

In the year ended March 31, 2003, SMBC provided Kumagai-Gumi Ltd. with financial assistance in the form of debt forgiveness in the amount of ¥256.2 billion and acquisition of new shares in the amount of ¥20.6 billion.

In September 2003, Mitsui Mining, SMBC and two other Mitsui group companies jointly submitted an application for support pursuant to the Industrial Revitalisation Corporation Law, and received an approval notice of support, SMBC is effecting financial support to Mitsui Mining in the form of debt forgiveness of approximately ¥43 billion and capital subscription of approximately ¥27 billion.

In March 2004, SMBC and Kanebo jointly submitted an application for support pursuant to the Industrial Revitalisation Corporation Law, and have subsequently received an approval notice of support from IRC. SMBC is expected to effect financial support to Kanebo in the form of debt forgiveness of approximately ¥41 billion and capital subscription of approximately ¥30 billion.

Credit Costs

The following table shows an analysis of SMBC's credit costs for each of the periods indicated:

	Year ended March 31, 2003	Year ended March 31, 2004
	(millions of yen, except percentages)	
Write-off of loans	¥ 364,605	¥ 639,994
Transfer to specific reserves	407,963	307,660
Transfer to reserve for losses on loans sold	16,672	(489)
Losses on sale of delinquent loans	162,494	266,752
Transfer from loan loss reserve for specific overseas countries	(3,888)	(3,807)
Transfer to general reserve for possible loan losses	251,413	(327,964)
Other credit costs	2,419	42,013
Total	¥ 1,201,681	¥ 924,159
Loans and bills discounted (period end)	¥61,219,617	¥55,428,967
Ratio of total loan losses to loans and bills discounted	1.96%	1.67%

During the year ended March 31, 2004 SMBC wrote off loans in the amount of ¥640 billion, an increase of ¥275 billion from ¥365 billion for the year ended March 31, 2003.

Transfers to reserves for losses on loans sold have decreased over the two years ended March 31, 2004.

SMBC makes the appropriate write-offs and reserves as a result of the self-assessments which are conducted in compliance with the financial inspection manual prepared by the FSA and the practical guidelines published by the Japan Institute of Certified Public Accountants. Total credit costs amounted to ¥924 million for the year ended March 31, 2004 compared to ¥1,201,681 million for the year ended March 31, 2003, including the amounts transferred to general reserves for possible loan losses. Credit costs are subject to changes to the category of borrowers under self-assessment, in particular the deterioration of borrowers' financial condition from normal or requiring caution to lower categories, costs associated with "off-balancing" transactions and costs relating to an increase of the reserve ratio by application of discount cash flow method and so on.

As at March 31, 2004, total reserves for possible loan losses were ¥1,375,921 million.

Accounting Principles and Self-Assessment Categories Relating to Reserves for Possible Loan Losses

The table set forth below provides an overview of the different methods of loan and asset categorisation as well as applicable amounts and percentages on a non-consolidated basis as at March 31, 2004:

Billions of Yen

Category of Borrowers under Self-Assessment	Disclosed Assets based on the Financial Reconstruction Law	Classification under Self-Assessment: Classification I	Classification II	Classification III	Classification IV	Reserve for Possible Loan Losses		Reserve Ratio	
Bankrupt Borrowers Effectively Bankrupt Borrowers	Bankrupt and Quasi-Bankrupt Assets 361.6(i) (Change from Mar. 31, 2003:-163.3)	Portion of claims secured by collateral or guarantees, etc. 349.7(a)		Fully reserved 11.9	Direct Write-offs (*1)	Specific Reserve	18.3 (*2)	100% (*3)	
Potentially Bankrupt Borrowers	Doubtful Assets 1,202.7(ii) (Change from Mar. 31, 2003: -926.8)	Portion of claims secured by collateral or guarantees, etc. 657.3(b)		Necessary amount reserved 545.4			455.7 (*2)	83.6% (*3)	
Borrowers Requiring Caution	Substandard Loans 1,246.9(iii) (Change from Mar. 31, 2003: -1,360.0) (Claims to Substandard Borrowers)	Portion of Substandard Loans secured by collateral or guarantees, etc. 523.5(c)				General Reserve for Substandard Loans 287.5		39.0% (*3)	22.4% (*3)
	Normal Assets 52,874.4	Claims to Borrowers Requiring Caution, excluding claims to Substandard Borrowers				General Reserve	769.0	4.2% [10.8%] (*4)	
Normal Borrowers		Claims to Normal Borrowers						0.2% (*4)	

Total 55,685.6(iv)

Loan Loss Reserve for Specific Overseas Countries 7.8

A: (i)+(ii)+(iii)	B: Portion secured by collateral or guarantees, etc.	C: Unsecured portion (A - B)		Reserve Ratio (*5)
2,811.2(v) (Change from Mar. 31, 2003: -2,450.1) <Problem asset ratio ((v)/(iv))5.0%>	(a)+(b)+(c) 1,530.5	1,280.7	D: Specific Reserve + General Reserve for Substandard Loans (*2) 761.5	$\frac{D}{C}$ 59.5%

Coverage Ratio = (B+D)/A 81.5%

(*1) Includes amount of direct reduction totalling ¥889.4 billion.

(*2) Includes reserves for assets which are not subject to disclosure under the Financial Reconstruction Law disclosure standards. (Bankrupt/effectively bankrupt borrowers: ¥6.4 billion, potentially bankrupt borrowers: ¥9.5 billion).

(*3) Reserve ratios to bankrupt borrowers, effectively bankrupt borrowers, potentially bankrupt borrowers, substandard borrowers and borrowers requiring caution including substandard borrowers are the proportion of the reserve to the respective claims of each category, excluding the portion secured by collateral or guarantees, etc.

(*4) Reserve ratios to normal borrowers and borrowers requiring caution excluding substandard borrowers are the proportion of the reserve to the respective claims of each category. A figure in square brackets indicates the proportion of the reserve to the claims to borrowers requiring caution, excluding claims to substandard borrowers, excluding the portion secured by collateral or guarantees, etc.

(*5) The proportion of the reserve to the claims, excluding the portion secured by collateral or guarantees, etc.

SMBC accounts for its non-performing loans, reserves and loan losses in accordance with the following policies and regulations.

Borrower Categorisation

Under the self-assessment process, SMBC classifies its customers into five different categories based on guidelines promulgated by the Japan Institute of Certified Public Accountants in April 1997, as amended. The five categories of customers are:

- ''Normal Borrowers''. This category consists of borrowers in satisfactory financial condition who meet their payment obligations, and includes all borrowers not classified as ''borrowers requiring caution'', ''potentially bankrupt borrowers'', ''effectively bankrupt borrowers'' or ''bankrupt borrowers''.

- ''Borrowers Requiring Caution''. This category consists of borrowers (i) with ''restructured'' loans (see ''Restructured Loans''); (ii) who are past-due on principal or interest payments for 3 months or more; (iii) whose business or financial condition is deteriorating or becoming unstable; or (iv) who are otherwise experiencing financial difficulties. Items listed under (i) and (ii) combined constitute ''substandard loans'' as defined under the Financial Reconstruction Law.

- ''Potentially Bankrupt Borrowers''. This category consists of currently solvent borrowers that SMBC deems to have a high probability of becoming insolvent because of continuing, serious financial difficulties or because of a lack of expected progress in implementing restructuring plans. These borrowers have low prospects of future profitability and continued solvency because, among other reasons, they are nearly insolvent, their business and financial condition has significantly deteriorated, or some or all of their loans are past-due. SMBC classifies those borrowers as ''potentially bankrupt'' with whom SMBC decides to cease providing financial support and to adopt a passive approach with respect to, or withdraw from, its current relationship with such borrower.

- ''Effectively Bankrupt Borrowers''. Even though not legally or formally insolvent, borrowers can be classified as ''effectively bankrupt'' if, among other reasons, they face extreme financial difficulties of a larger magnitude than customers classified as ''potentially bankrupt'' and there are no prospects for successful restructuring. A borrower that continues to operate its business may nevertheless be classified as ''effectively bankrupt'' because, among other reasons, there is no prospect of future profitability due to a large amount of problem assets, a large amount of debt compared to its ability to repay, or insolvency persisting for generally more than one year. A borrower may also be classified as ''effectively bankrupt'' if there are no prospects for successful restructuring because of substantial losses due to calamities, accidents, a sudden change in the economic conditions, or other similar events. In addition, the borrower is ''effectively bankrupt'' if it is practically insolvent as evidenced by its loans being past-due for six months or longer.

- ''Bankrupt Borrowers''. This category consists of borrowers who have entered into bankruptcy (*hasan*), civil rehabilitation proceedings (*minji saisei*), corporate reorganisation proceedings (*kaisha kosei*), special liquidation proceedings (*tokubetsu seisan*) or similar proceedings, or whose discounted bills are subject to trading suspension at the bill clearing house.

Loan Classification

After categorising the borrower to which a loan was extended, SMBC categorises each loan by evaluating any collateral and guarantees associated with such loan. Collateral and guarantees are classified into two broad categories, (i) ''superior'' (*e.g.* cash deposits and high-quality securities) and (ii) ''ordinary'' (*e.g.*, real estate). Sub-categories of ''superior'' and ''ordinary'' collateral are specified, and each sub-category is assigned a specific percentage ranging from 50 per cent. to 100 per cent. for the purpose of determining the portion of the value of collateral that will be considered ''qualified'' collateral. SMBC then classifies its loans as follows:

- ''Classification I (Unclassified) Loans'' includes (i) all loans to ''normal'' borrowers and (ii) the ''qualified'' portion of ''superior'' collateral and guarantees for loans to all other borrowers.

- ''Classification II Loans'' includes (i) all loans (other than Classification I Loans) to ''borrowers requiring caution'', and (ii) the ''qualified'' portion of ''ordinary'' collateral and guarantees for loans to ''potentially bankrupt borrowers'', ''effectively bankrupt borrowers'' and ''bankrupt borrowers''.

- ''Classification III Loans'' includes (i) all loans (other than Classification I Loans and Classification II Loans) to ''potentially bankrupt borrowers'', (ii) the non-''qualified'' portion of collateral and guarantees for loans to ''effectively bankrupt borrowers'' and ''bankrupt borrowers'' and (iii) any additional amount SMBC expects to receive in bankruptcy proceedings on loans to ''effectively bankrupt customers'' and ''bankrupt borrowers''.

- "Classification IV Loans" includes all loans (other than Classification I Loans and Classification II and III Loans) to "effectively bankrupt borrowers" and "bankrupt borrowers".

Direct Write-offs

SMBC directly writes off (and does not charge off against its reserves) the portion of loans classified as "Classification IV", to the extent such portion has not been previously specifically reserved. SMBC writes off such portions of loans to "bankrupt borrowers", and such portions of loans to "effectively bankrupt borrowers" (to the extent not previously specifically reserved). SMBC then determines the appropriate amount of reserves to be established for loans in the remaining three categories according to the reserve policies described below.

Reserves

Reserves for possible loan losses represent allowances for estimated future credit losses. Credit losses arise primarily from the loan portfolio, but may also be derived from other sources including commitments to extend credit, guarantees and standby letters of credit. In this offering circular, the term "loan losses" includes losses derived from these other sources. Actual loan losses, net of recoveries, are generally deducted from reserves for possible loan losses. However, under SMBC's self-assessment process, losses on loans are shown as direct write-offs (and not charged off against reserves) when the loan or a portion thereof is or becomes unsecured, and the customer is classified as "bankrupt" or "effectively bankrupt", to the extent that specific reserves were not provided for such loans.

Reserves for possible loan losses are comprised of three parts: general reserves, specific reserves and reserves for specific overseas countries. Accounting principles relating to these are discussed below. SMBC also maintains reserves for loss on loans sold to CCPC. SMBC uses a self-assessment process to analyse the quality of its loans and thereby calculate its reserves.

The following tables show the changes in SMBC's reserves for possible loan losses (on a non-consolidated basis) as at the dates indicated:

	As at March 31,	
	2003	2004
	(millions of yen, except percentages)	
Non-consolidated		
Reserves for possible loan losses at beginning of period	¥ 4,943	¥ 2,074,797
Merger with Former-SMBC	2,138,501	—
Charge-offs to specific reserves for possible loan losses	(30,501)	(471,385)
Aggregate additions to reserves	(38,145)	(352,661)
Reserves for possible loan losses at end of period	2,074,797	1,250,751
General reserves	1,113,235	769,033
Specific reserves	949,996	473,959
Reserves for specific overseas loan losses	11,566	7,758
Loans and bills discounted	57,282,365	50,810,144
Reserves for possible loan losses as a percentage of loans and bills discounted	3.62%	2.46%
Specific reserve as a percentage of bankrupt loans and non-accrual loans	37.07%	31.02%

General Reserves. General reserves are provided for the following categories of loans: (i) Classification II of substandard loans, (ii) loans to borrowers requiring caution other than substandard loans and (iii) Classification I of loans to normal borrowers. The reserve ratios for those three categories are based on the historical credit loss ratios for each group. During 2003 and 2004 SMBC raised the reserve ratios for the Classification II loans to borrowers requiring caution. The reserve ratio for the unsecured portion of the Classification II loans to borrowers requiring caution excluding substandard loans was decreased to 12.8 per cent. in March 2003 and to 10.8 per cent. in March 2004. The reserve ratio for the unsecured portion of the substandard loans was increased to 39.0 per cent. in March 2004. With effect from March 31, 2003, SMBC now calculates loan loss reserves for substandard loans made to borrowers with large exposure by analysing the projected cash flows discounted to present value rather than basing reserves on historical loan loss data.

Specific Reserves. The specific reserves are based on SMBC's estimate of the probability of loan losses on the whole amount of each loan classified as "Category III", which is based on historical credit loss ratios. SMBC has transferred unusually large amounts to the specific reserves in recent fiscal years. Additions to the specific reserves are generally not fully deductible for Japanese tax purposes. SMBC in recent years has provided for transfers to the specific reserves in amounts that have substantially exceeded the corresponding amounts deductible for Japanese tax purposes; this difference accounts for most of the deferred income taxes reflected in SMBC's financial statements. This ratio is based upon historical credit loss ratios. Additionally, SMBC provides for higher specific reserves with respect to certain loans. As a result, the specific reserve ratio applicable to loans for bankrupt and quasi bankrupt borrowers and loans for potentially bankrupt borrowers as at March 31, 2004 was 100 per cent. and 83.6 per cent. respectively.

Reserves for Specific Overseas Countries. SMBC maintains reserves for possible losses on specific overseas loans originated in countries considered to be more risky. The amount of the reserves is based on the amount of expected losses due to the political and economic situation of these countries. See "— Loans to Specific Overseas Countries".

Reserves for Possible Losses on Loans Sold. The reserves for possible losses on loans sold reflects SMBC's estimate of the amount of losses it will incur in the future in relation to loans previously sold by SMBC to CCPC. At the time of each sale by SMBC to CCPC of problem loans, SMBC recognises a loss to reflect the discounted sale price of such loans. However, SMBC is subject to the risk of further losses associated with loans sold to CCPC. Each sale to CCPC is financed by a loan by SMBC to CCPC. Under the contract for sale of loans, any losses incurred by CCPC on any subsequent disposition of the real estate collateral (and certain related expenses incurred by CCPC) are then reflected retroactively in the sale price at which CCPC purchased the loan and are charged to SMBC. Because the market value of real estate securing many of the loans sold by SMBC to CCPC has declined significantly since the respective times at which such loans were sold, SMBC expects that such losses will be charged to SMBC upon disposition of the relevant real estate collateral. Reserve for loss on loans sold provides for such contingent "secondary" losses expected to be charged to SMBC in the future. SMBC intends to provide for such reserve to reflect the material difference between current estimated market values for real estate collateral for such loans and the principal amount of loans extended by SMBC to CCPC to finance the purchase of such loans by CCPC. Transfer to reserve for loss on loans sold is not deductible for Japanese tax purposes.

Disclosure of Problem Assets Under the Financial Reconstruction Law

Under the Financial Reconstruction Law, assets are assessed and classified into four categories (i) bankrupt and quasi bankrupt assets, (ii) doubtful assets, (iii) substandard loans and (iv) normal assets. SMBC is required to categorise its assets according to the Financial Reconstruction Law and to disclose such information semi-annually. The categories are:

Bankrupt and Quasi-Bankrupt Assets. This category is defined as the sum of credits to bankrupt borrowers and effectively bankrupt borrowers as categorised by the self-assessment, minus fully written-off Classification IV credits. All Classification III credits are unsecured and fully covered by reserves. The remaining Classification I and II credits are considered to be collectible since they are secured by collateral or guarantees.

Doubtful Assets. This is the sum of credits extended to borrowers classified as potentially bankrupt under the self-assessment. Since the Classification I and II credits are secured by collateral or guarantees and are considered to be collectible, specific reserves are set aside only for the unsecured portions under Classification III.

Substandard Loans. This is the sum of the loans extended to borrowers requiring caution under the self-assessment. Loans that are 3 months or more past due and restructured loans are placed in this category.

Normal Assets. This is the sum of the credits not included in the other three categories. Normal assets thus represent the sum of credits to normal borrowers and that portion of credits identified through self-assessment as borrowers requiring caution, but not classified as substandard, and on which the risk of credit losses is deemed relatively small.

The following tables set forth SMBC's disclosure as to the quality of its loan portfolio and other extensions of credit, in the disclosure categories required under the Financial Reconstruction Law and the corresponding amount of specific reserves for each category on a non-consolidated basis, as at March 31, 2003 and 2004:

	As at March 31,	
	2003	2004
	(billions of yen)	
Non-consolidated		
Bankrupt and quasi-bankrupt assets (*Hasan kousei saiken oyobi korerani junzuru saiken*)	¥ 524.9	¥ 361.6
Doubtful assets (*Kiken saiken*)	2,129.5	1,202.7
Substandard loans (*Youkanri saiken*)	2,606.9	1,246.9
Total problem assets	5,261.3	2,811.2
Normal assets (*Seijou saiken*)	57,313.4	52,874.4
Total	¥62,574.7	¥55,685.6

	As at March 31,	
	2003	2004
	(billions of yen, except percentages)	
Non-consolidated		
Bankrupt and quasi-bankrupt assets:		
Secured by collateral or guarantees	¥ 507.8	¥ 349.7
Fully reserved	17.1	11.9
Reserve for possible loan losses	23.8	18.3
Reserve ratio	100.0%	100.0%
Doubtful assets:		
Secured by collateral or guarantees	¥ 959.4	¥ 657.3
Necessary amount to be reserved	1,170.1	545.4
Reserve for possible loan losses	926.2	455.7
Reserve ratio	79.2%	83.6%

The following table sets forth the loan categories and corresponding guidelines for loan loss write offs and reserves issued by the FRC in 1999. SMBC has adopted reserve policies for loan loss write-offs and reserves in accordance with these guidelines:

	FRC Reserve Guideline
Bankrupt and quasi-bankrupt assets (*Hasan kousei saiken oyobi korerani junzuru saiken*)	Direct write-off of 100 per cent. of unsecured portion not covered by specific reserves.
Doubtful assets (*Kiken saiken*)	Specific reserves of 70 per cent. or ratios based on each bank's historical credit loss experience against the unsecured portion of claims.
Substandard loans (*Youkanri saiken*)	15 per cent. of general reserves against unsecured portion of claims to any "customer requiring caution", if any of such customer's loans are classified as "substandard".
Normal assets (*Seijou saiken*)	Historical credit loss ratio.

Disclosure of Risk-Monitored Loans Under the Banking Law

Under the Banking Law, SMBC is required to disclose certain of its non-performing loans (on both a consolidated and non-consolidated basis) as "risk-monitored loans". The Banking Law provides for the disclosure of four categories of risk monitored loans, (i) bankrupt loans, (ii) non-accrual loans, (iii) past due loans (three months or more) and (iv) restructured loans. These loans exclude non-loan assets such as foreign exchange, accrued interest and advanced payments.

The following table sets forth SMBC's risk monitored loans, on a consolidated basis, as at March 31, 2003 and 2004:

	As at March 31,	
	2003	2004
	(millions of yen)	
Bankrupt loans	¥ 199,794	¥ 96,101
Non-accrual loans	2,665,675	1,710,575
Past due loans (3 months or more)	128,493	51,019
Restructured loans	2,689,172	1,371,524
Total risk-monitored loans	¥5,683,134	¥3,229,219

Bankrupt Loans. Bankrupt loans are loans to borrowers that have been legally and formally declared bankrupt.

Non-accrual loans. Non-accrual loans are loans for which SMBC does not currently accrue interest income due to the nonpayment status of the loan or the condition of the borrower. Non-accrual loans also include all other loans to "bankrupt", "effectively bankrupt" and "potentially bankrupt" customers. Loans to customers (other than "bankrupt", "effectively bankrupt" and "potentially bankrupt" customers) are removed from non-accrual status if interest is received from the borrower, even if such interest is substantially less than the full amount due. SMBC's non-accrual loans are virtually all domestic loans. SMBC is taking active measures to reduce the balance of its non-accrual loans, principally by writing off such loans and, in the case of domestic loans secured by real estate, disposing of such loans and collateral through sales.

Past due loans. Past due loans include loans for which principal or interest is three months or more past due, but excludes risk-monitored loans.

Restructured loans. Restructured loans are loans to customers in financial difficulty to whom banks provide financial support by changing the lending terms so as to be more favourable to the borrower, including reduction of interest rates, provision of grace periods for repayment and debt forgiveness. Restructured loans do not include extensions of credit to the CCPC or to the Housing Loan Administration Corporation ("HLAC") or its successor, or investments in the *jusen* funds. See "— Jusen Restructuring". In some cases, SMBC provides support to customers whose loans are classified as "restructured". SMBC's approach in these instances is to provide support to these customers in an attempt to achieve a greater level of recovery. SMBC monitors the customer's performance carefully, in some cases by seconding staff from SMBC, while maintaining the customer relationship. As at March 31, 2004, restructured loans were ¥1,372 billion, a decrease of ¥1,318 billion from March 31, 2003.

Loans to Specific Overseas Countries

As at March 31, 2004, six countries are categorised by SMBC as specific overseas countries that are considered to have an enhanced credit risk. As at March 31, 2004, SMBC had ¥74.7 billion of exposure to specific overseas countries almost all of which represented exposure to Indonesia.

The following table sets forth SMBC's exposure to specific overseas countries at the dates indicated:

	As at March 31,	
	2003	2004
	(millions of yen)	
Indonesia	¥104,744	¥73,826
Others	3,333	861
	¥108,077	¥74,688
Number of countries	9	6

Jusen Restructuring

Japanese housing loan companies, commonly known as *"jusen"*, were rendered insolvent in the early 1990s by the rapid increase in non-performing loans and a decline in the value of Japanese real estate collateral underlying their loan portfolios. In 1996, the Ministry of Finance and leading Japanese financial institutions undertook coordinated action to resolve the problems of the *jusen,* including the use of public funds. The HLAC was formed to administer this restructuring. As part of this government sponsored restructuring, Sakura Bank and Sumitomo Bank invested in the special *jusen* funds.

SMBC's investments in the two *jusen* funds, which totaled ¥209 billion as at March 31, 2004 on a non-consolidated basis, are non-interest bearing investments included on SMBC's balance sheet (classified as other assets). These investments are reported at cost. There can be no assurance that SMBC's investments in these funds will be returned or that additional contributions from SMBC or further forgiveness of loans by SMBC will not be required in the event that HLAC's successor requires additional financial assistance in order to meet its financial obligations. In April 1999, HLAC merged with the Resolution and Collection Bank and became RCC.

Securities-Related Activities

Securities Portfolio

On a non-consolidated basis, the book value of SMBC's investment securities portfolio amounted to ¥26,593 billion as at March 31, 2004. SMBC's bond portfolio had a book value amounting to ¥21,874 billion (on a non-consolidated basis) as at March 31, 2004. SMBC's bond portfolio is principally held for investment purposes with a small number of securities being held for inventory purposes for sales to customers. More than half of SMBC's bond portfolio is composed of fixed-rate long-term Japanese and local government bonds and high quality corporate bonds denominated in yen which SMBC intends to hold until maturity. The approximate average duration (after hedging) of SMBC's JGB portfolio as at March 31, 2004 was 2.9 years, compared to 3.5 years as at March 31, 2003. Bonds are also held to ensure liquidity and, when needed, they can be used as collateral for call money or other money market funding or short term borrowing from the Bank of Japan. Sales of such bonds are made from time to time in order to recognise discretionary gains. SMBC's treasury department actively monitors the interest rate and maturity profile of its bond portfolio as part of SMBC's overall risk management. The short-term bond trading operations of SMBC's former securities subsidiary have been transferred to the securities and derivatives joint venture.

SMBC's equity portfolio had a book value amounting to ¥4,589 billion as at March 31, 2004, on a non-consolidated basis, consisting largely of publicly-traded Japanese equities. SMBC's equity portfolio, like that of other Japanese banks, has historically included shares of certain of its customers who in turn hold shares of SMFG. SMBC continues to reduce its equity holdings to comply with the FSA requirement that the equity portfolio of a bank shall amount to no more than SMBC's Tier I capital. SMBC continued to complete sales of a significant amount of cross shareholdings during the year ended March 31, 2004. The balance of SMBC's consolidated equity portfolio as at March 31, 2004 increased to ¥3.6 trillion from ¥3.4 trillion as at March 31, 2003. As a result, as at March 31, 2004 the market value of SMBC's equity portfolio classified as other securities with market value continued to be well below SMBC's consolidated Tier I capital.

SMBC recognises the risks associated with its equity portfolio due to its volatility as well as its relatively poor yield. Accordingly, SMBC has been actively looking to minimise the negative effect of holding a large equity portfolio through hedging and derivative transactions and at the same time maintain existing client relationships. While the portfolio is under review, SMBC continues to look at equity investments with the potential for meaningful returns.

The following table sets forth the closing values of the Nikkei 225 Index and the TOPIX at March 31, 2000, 2001, 2002, 2003 and 2004:

	As at March 31,				
	2000	**2001**	**2002**	**2003**	**2004**
Nikkei 225 Index	¥20,337.32	¥12,999.70	¥11,024.94	¥7,972.71	¥11,715.39
TOPIX	1,705.94	1,277.27	1,060.19	788.00	1,179.23

As of July 21, 2004 the Nikkei 225 Index was ¥11,433.86 and the TOPIX was 1,153.76.

The following tables show the total composition and maturity of SMBC's investment securities portfolio (on a non-consolidated basis) as at the dates indicated:

	As at March 31, 2004								
	One year or less	More than one year to three years	More than three years to five years	More than five years to seven years	More than seven years to ten years	Over ten years	Unspecified term	Total	(%)
	(millions of yen, except percentages)								
Non-consolidated									
Japanese government bonds	¥2,586,741	¥2,349,136	¥4,658,046	¥2,026,179	¥1,175,114	¥1,101,824	¥ —	¥13,897,044	52.26%
Japanese local government bonds(1)	1,174	24,549	169,736	12,662	209,189	519	—	417,831	1.57
Japanese corporate bonds(1)(2)	122,080	697,926	1,066,954	258,241	223,592	2,964	—	2,371,760	8.92
Japanese corporate stocks	—	—	—	—	—	—	3,660,522	3,660,522	13.77
Others(3)	255,415	2,923,707	1,201,085	165,856	277,458	386,108	1,035,792	6,245,424	23.48
Foreign bonds	251,402	2,898,312	1,179,263	141,726	261,747	362,180	92,822	5,187,456	19.51
Foreign stocks	—	—	—	—	—	—	928,525	928,525	3.49
Total	¥2,965,412	¥5,995,319	¥7,095,824	¥2,462,940	¥1,885,355	¥1,491,417	¥4,696,315	¥26,592,584	100.0%

	As at March 31, 2003								
	One year or less	More than one year to three years	More than three years to five years	More than five years to seven years	More than seven years to ten years	Over ten years	Unspecified term	Total	(%)
	(millions of yen, except percentages)								
Non-consolidated									
Japanese government bonds	¥3,224,334	¥1,802,741	¥4,175,621	¥1,113,572	¥1,878,410	¥154,383	¥ —	¥12,349,063	52.2%
Japanese local government bonds(1)	6,119	6,910	95,742	39,278	145,642	580	—	294,274	1.3
Japanese corporate bonds(1)(2)	128,939	627,709	826,585	272,594	223,378	1,900	—	2,081,107	8.8
Japanese corporate stocks	—	—	—	—	—	—	3,508,151	3,508,151	14.8
Others(3)	159,914	2,003,382	795,661	168,291	585,142	707,823	1,003,572	5,423,788	22.9
Foreign bonds	129,200	1,995,829	780,435	164,803	569,753	706,385	63,429	4,409,837	18.6
Foreign stocks	—	—	—	—	—	—	925,655	925,655	3.9
Total	¥3,519,308	¥4,440,744	¥5,893,611	¥1,593,736	¥2,832,573	¥864,687	¥4,511,723	¥23,656,385	100.0%

(1) Many of the corporate bonds and some of the Japanese local government bonds held by SMBC are not listed on an established market and are, therefore, recorded at cost.

(2) Includes, in addition to corporate bonds, bonds guaranteed by the government of Japan and bank debenture.

(3) Includes foreign securities such as non-yen denominated securities, yen denominated securities issued outside Japan and yen denominated securities of non-Japanese issuers issued in Japan.

The following tables show the book value and market value of, and the unrealised gain or loss on, SMBC's investment securities portfolio as at the dates indicated. Unlisted securities without market values are not reflected in these tables.

	As at March 31,			
	2003		2004	
	Balance sheet amount	Gains included in profit (loss) during the year	Balance sheet amount	Gains included in profit (loss) during the year
	(millions of yen)			
Securities classified as trading purposes	¥1,434,190	¥(1,096)	¥1,170,727	¥(1,707)

	As at March 31, 2004				
	Balance sheet amount	Market value	Net unrealised gains (losses)	Unrealised gains	Unrealised losses
	(millions of yen)				
Bonds classified as held-to-maturity with market value	¥525,688	¥518,262	¥(7,425)	¥2,840	¥10,266

	As at March 31, 2003				
	Balance sheet amount	Market value	Net unrealised gains (losses)	Unrealised gains	Unrealised losses
			(millions of yen)		
Bonds classified as held-to-maturity with market value	¥ 375,719	¥ 381,569	¥ 5,850	¥ 5,956	¥ 105

Other securities with market value

	As at March 31, 2004				
	Acquisition cost	Balance sheet amount	Net unrealised gains (losses)	Unrealised gains	Unrealised losses
			(millions of yen)		
Stocks	¥ 2,207,264	¥ 2,869,841	¥ 662,576	¥726,236	¥ 63,660
Bonds	15,604,771	15,501,515	(103,256)	18,590	121,847
Japanese government bonds	14,028,689	13,939,482	(89,207)	14,225	103,432
Japanese local government bonds	515,362	506,263	(9,098)	1,075	10,173
Japanese corporate bonds	1,060,720	1,055,769	(4,950)	3,289	8,240
Other	5,354,259	5,363,346	9,086	32,049	22,962
Total	¥23,166,296	¥23,734,703	¥ 568,407	¥776,877	¥208,470

	As at March 31, 2003				
	Acquisition cost	Balance sheet amount	Net unrealised gains (losses)	Unrealised gains	Unrealised losses
			(millions of yen)		
Stocks	¥ 3,140,569	¥ 2,978,296	¥(162,273)	¥110,464	¥272,737
Bonds	14,024,014	14,135,179	111,164	117,093	5,928
Japanese government bonds	12,516,061	12,590,255	74,193	79,479	5,286
Japanese local government bonds	342,798	352,112	9,314	9,415	101
Japanese corporate bonds	1,165,153	1,192,811	27,657	28,197	540
Other	4,476,699	4,500,337	23,637	42,900	19,262
Total	¥21,641,283	¥21,613,812	¥ (27,471)	¥270,458	¥297,929

The net unrealised losses as at March 31, 2003 are primarily attributable to the unrealised loss of stocks. The large amount of unrealised gains at March 31, 2004 are primarily attributable to the improvements in the values of Japanese equities.

Trading Portfolio

SMBC uses mark-to-market accounting for its trading portfolio pursuant to the Banking Law. SMBC's trading portfolio includes securities, derivatives and other trading assets and liabilities. Net trading income for the years ended March 31, 2004 and March 31, 2003 were ¥304,094 million and ¥205,770 million, respectively, principally consisting of gains on trading-related financial derivatives transactions.

Risk Management

SMFG manages risk on a "group-wide" basis by establishing basic policies for risk management applicable to the entire group, monitoring its subsidiaries' compliance with such basic policies and organising relevant subsidiaries and departments in anticipation of the introduction of new rules with respect to minimum capital requirements announced by the Basel Committee on Banking Supervision and scheduled to take effect in December 2006.

In addition to the role of SMFG, SMBC manages risks resulting from its and its subsidiaries operations. Risks are classified into the following categories for control purposes: (i) credit risk, (ii) market risk, (iii) liquidity risk, (iv) processing risk, (v) systems risk and (vi) other risks (settlement risk, legal risk, reputational risk and others). Each department is charged with control of risks at an appropriate level within its own business line. To manage the risks included in the items (i)-(v) above as well as settlement risk, SMBC has designated certain departments as Risk Management Departments to oversee specific risk control measures within each risk category. In addition, SMBC has established the Corporate Risk Management Department completely independent of the business units to manage these risks on a bank-wide basis. The Corporate Risk Management Department works with the Corporate Planning Department to comprehensively and systematically manage risk.

The system works as follows: Each Risk Management Department supervising a particular risk category drafts "basic principles for risk management" for that category, which are then presented for approval at the Management Committee and considered by the Board's Risk Management Committee before being finalised by the Board. According to the basic principles for risk management, the Management Committee, board members and Risk Management Department heads perform risk management and this process is coordinated by the Risk Management Departments concerned.

The Risk Management Departments revise the basic risk management principles for each risk category on a regular basis, and whenever necessary, to ensure timely and appropriate risk management. Furthermore, in order to maintain a balance between risk and return as well as ensure the soundness of SMBC from an overall perspective, SMBC uses the "risk capital-based management" method which allocates capital to each department according to its role in SMBC's business strategies in order to keep the total exposure to credit, market, processing and systems risk within the scope of its management resources, *i.e.*, capital. In the credit and market risk categories in particular, the maximum risk capital that can be allocated during a period is predetermined and risk capital guidelines are set within this limit to manage these risks. Liquidity risk is managed within a framework that includes plans for money gap and treasury funding. The other risk categories are managed with procedures closely attuned to the nature of the risk as described below.

Market Risk

Market risk is the chance that fluctuations in interest rates, foreign exchange rates or stock prices will change the value of financial products, leading to a loss. Market risk can be divided into various factors: foreign exchange rate, interest rate, equity price and option risk. SMBC uses both the value at risk (VaR) method and other indicators actually used in daily operations, such as the basis point value (BPV) indicator (to measure the change in earnings for every 0.01 per cent. change in interest rates), to manage risk in each risk category. The VaR method predicts the maximum potential loss for a given probability. SMBC strives to set the total VaR guidelines to conservative levels relative to capital in line with its business strategies.

Market risk attributable to SMBC's strategic holding of equity when held by units not in charge of market-related activities and the market risk taken by its major subsidiaries are included in the integrated risk management performed by the Corporate Risk Management Department. The VaR is regularly calculated and reported to the Board of Directors and Management Committee.

The market occasionally undergoes extreme fluctuations that exceed expectations. To manage market risk, therefore, it is important to run simulations (stress tests) of situations that may occur only once in many years. SMBC runs periodic stress tests to prepare for unforeseeable swings in market conditions. SMBC also establishes loss cut guidelines and limits for its operations, depending on its financial situation and business strategy, in order to manage its market risk.

The internal model used by SMBC (SMBC VaR) has been evaluated by an independent audit firm and certified to be appropriate. To further verify the reliability of the model, SMBC performs back testing on the relationship between the VaR calculated with the model and the actual profit and loss data. SMBC calculates VaR based on a one-day holding period and a 99.0 per cent. confidence level.

To manage SMBC's risk in the yen-denominated banking account, it uses gap analysis employing maturity ladders and the earnings at risk (EaR) model in addition to the VaR model. If an external factor, such as interest rates, moves in an unfavourable direction, the EaR model can indicate the largest estimated change in earnings (interest rate spread) for a set period at a given probability. Since strategy and budgetary planning is based on the earnings for a period, SMBC uses the EaR model to supplement the VaR model. Using Monte Carlo simulations to generate 1,000 scenarios, SMBC tests the magnitude of the effect that new deposits and loans will have on the period's earnings.

In the interests of bolstering asset soundness, SMBC recognises that maintaining strategic equity holdings at the levels appropriate to its fiscal strength and managing the price risk of these stocks is an important issue for SMBC's management. Therefore, SMBC actively manages these risks by treating the entire holding of strategic equity as a portfolio and keeping the maximum potential loss amount derived from the VaR model and the earnings for the period within the risk capital allocations, and maintaining them at an appropriate level vis-a-vis capital.

As at March 31, 2004, the market risk exposure of SMBC was approximately ¥85 billion based on the VaR method. The greater portion of the exposure arises from assets in the banking account intended for long-term holding. The exposure related to short-term trading account holdings is relatively small compared to the total. Moreover, the primary component of the exposure is interest rate risk arising from fluctuations in market rates, rather than ''non-linear'' risk arising from derivative products.

Credit Risk

Credit risk is the chance of a loss arising from a credit event, such as deterioration in the financial condition of a borrower, that causes an asset (including off-balance sheet transactions) to lose value or become worthless. Overseas credits also include an element of country risk, which is closely related to credit risk. This is the risk that changes in currency values or political or economic situations result in a loss.

The purpose of credit risk management is to avoid these credit events, to keep credit risk exposure within SMBC's capital, maintain the soundness of SMBC's assets and ensure returns commensurate with risk. SMBC's current credit policy clarifies the universal and basic operating concepts, code of conduct and standards for credit operations. By giving SMBC's employees extensive credit training, it aims to achieve the global standards of credit risk management contemplated by the Bank for International Settlements (BIS) in its January 2001 consultative papers and by the FSA in its inspection manuals, and create a better credit management culture within SMBC.

SMBC assesses the credit risk posed by each borrower and loan with SMBC's internal rating system and quantifies that risk for control purposes. The internal rating system consists of two indicators: (i) the obligor's grading which indicates the creditworthiness of a borrower, and (ii) the facility grading which shows the probability of collecting for each facility. Facility gradings are assigned based on the borrower's obligor's grading in consideration of transaction terms such as guarantee, tenor and collateral. Overseas credits are further subjected to analysis with the country ranking, an indicator derived from analysis of the political and economic situations, international balance of payments and the external debt burden of each country. In order to maintain the consistency of the grading system as a whole, self-assessment is the prerequisite step to the obligor's grading process.

Quantifying credit risk reflects the concentrating of risk toward a specific customer or industry and fluctuations in the values of real estate, securities and other types of collateral. This range of data must be analysed to quantify the risk of an entire portfolio or an individual loan. To calculate credit risk, historical data for the obligor and facility is entered into a database, the parameters are set — such as the probability of a ratings change and the recovery rate — and then the probability distribution of losses for the entire portfolio (amount of loss for what probability) is computed to determine the maximum potential loss in the future. The quantified credit risk results are then used to formulate business plans and provide a standard against which individual credit applications are assessed.

Credit assessments involve a variety of financial analyses, including cash flow analysis, to predict an enterprise's ability to repay the loan and its growth prospects. These quantitative measures are then combined with qualitative analyses of industry trends, research and development capabilities, the competitiveness of the company and its products or services, and its management capabilities. The loan application is also analysed in terms of the intended uses of the funds, the repayment schedule and the state of its collateral. As part of SMBC's measures to enhance efficiency and speed up approvals, it has digitised and standardised the loan evaluation and approval processes to run on SMBC's information technology network as the Credit Application System. In addition to analysing loans at the application stage, a Credit Monitoring System is implemented in order to reassess the obligor's grading and review self-assessment so that problems can be detected at an early stage and quick and adequate action can be taken. The system includes Periodic Monitoring with receipt of the annual report, as well as Continuous Monitoring performed when the credit conditions change.

In addition to managing individual loans, SMBC applies the following basic policies to the management of its entire portfolio to maintain and improve SMBC's soundness and profitability over the medium to long-term:

- *Risk-Taking within the Scope of Capital.* To control credit risk within the scope of its capital, SMBC calculates the required credit risk capital through regular quantification of credit risk, and then sets credit risk capital limits and manages risk-taking activities within these limits.

- *Controlling Concentration Risk.* Since the concentration of credit in an industry or corporate group has the potential to severely impact a bank's capital, credit control on industries with concentration risk and loan reviews of large borrowers and their groups are implemented. SMBC also sets credit limits for each country based on its creditworthiness to manage country risk.

- *Balancing Risk and Return.* SMBC operates on the basic principle of seeking returns commensurate with the credit risk. Loan pricing, therefore, uses its credit risk quantification calculations and the Sumitomo Mitsui Value Added (SMVA) indicator to ensure that adequate profit is generated after deducting credit cost, cost of capital and expenses.
- *Reduction of Non-Performing Loans.* In order to counter concerns of increasing losses from the deterioration of existing problem loans or the appearance of new problem loans, SMBC is striving to quickly reduce non-performing loans, by conducting loan reviews to set new responses and clarify action plans, and by strengthening its recovery and asset value maintenance strategies.
- *Toward Active Portfolio Management.* In addition to controlling the individual loan approval process, SMBC also actively manages its loan portfolio on an aggregate basis. SMBC's Portfolio Management Department spearheads SMBC's use of credit derivatives and loan securitisation in the markets to proactively manage its portfolio.

The Credit Risk Management Department within the Corporate Staff Unit is responsible for the comprehensive management of credit risk. This department determines the credit policies, establishes the internal rating system, develops credit risk quantification methods, sets credit limits and approval limits, and manages problem loans and other aspects of the loan portfolio administration.

The Corporate Research Department within the Corporate Staff Unit performs the basic research on industries and subsectors, and investigates individual companies to monitor early signs of problems or growth potential.

The credit departments within each business unit conduct the credit judgement for the loans handled by their business units and manage the business units' portfolios. The credit limits SMBC uses are based on the baseline amounts established for each rating category and SMBC pays particular attention to evaluating and managing customers or loans perceived to have particularly high credit risk.

Bankrupt or virtually bankrupt companies are generally handled by the Credit Administration Department, which works to recover non-performing loans as quickly as possible. The Credit Review Department, the Audit Department for the Americas, and the Audit Department for Europe operate independently of the business units, the Corporate Staff Unit and the Corporate Services Unit. These departments principally audit the soundness of assets, accuracy of gradings, self-assessments and the state of credit operations, and report audit results directly to the Board of Directors and the Management Committee.

Liquidity Risk

Liquidity risk is the chance of encountering an obstacle to raising the funds required for settlement due either to a mismatch between the use and procurement of funds or to an unexpected outflow of funds, or being forced to borrow at higher interest rates than usual. SMBC considers liquidity risk to be one of its major risks. SMBC manages liquidity risk so that it is not overly dependent on market-based funding to cover short-term cash outflows. SMBC's liquidity risk management is based on a framework consisting of setting limits and guidelines for the funding gap, maintaining a system of highly liquid supplementary funding sources and establishing contingency plans.

In daily risk management operations, SMBC avoids a gradual increase in liquidity risk by adjusting the funding gap limits and guidelines. For an emergency situation, SMBC has contingency plans in place to reduce the funding gap limits and guidelines and take other measures. To prevent the chance of market crises interfering with funding, SMBC carries highly liquid assets, such as U.S. treasury bonds, and has emergency borrowing facilities in place, which also facilitates foreign currency-denominated liquidity management.

Processing Risk

Processing risk is the chance of losses arising from negligent administration by employees, accidents or unauthorised activities. In SMBC's administrative regulations, the basic administrative policies are summarised as "comprehending the risks and costs of administration and transaction processing, and managing them accordingly" and "seeking to raise the quality of administration to deliver high-quality service to customers". SMBC aims to organise its systems to achieve these goals.

In its operating regulations, SMBC has also defined specific rules for processing risk management. The rules divide processing risk management tasks among six types of departments: (i) Operations Planning Departments, (ii) compliance departments, (iii) operations departments, (iv) transaction execution departments (primarily the front office departments and branches), (v) the Internal Audit Department and (vi) the Customer Relations

Department. The Board of Directors also reviews administrative conditions annually and sets new management policies as required. In addition, SMBC has set up a specialised group within the Operations Planning Department to strengthen administrative procedures throughout the SMBC Group.

SMBC includes processing risk in its calculation of risk capital requirements and has allocated a certain percentage of risk capital to cover it, based on the quantification of the risk for a financial year.

Settlement Risk

Settlement risk is the chance of a loss arising from a transaction that cannot be settled as planned. Since this risk comprises elements of several types of risk — such as credit risk, liquidity risk, processing risk and systems risk — it requires interdisciplinary management. The Operations Planning Department is charged with coordinating the management of this risk with the Credit Risk Management Department, which oversees credit risk, and the Corporate Risk Management Department, which oversees liquidity risk. SMBC is continuing to upgrade settlement risk management through such measures as participation in the Continuous Linked Settlement system, which will reduce the risk inherent in settlement of foreign exchange transactions.

Systems Risk

Systems risk is the chance of a loss arising from the failure, malfunction or unauthorised use of a computer system. SMBC has instituted a number of basic policies to manage systems risk, including a security policy, usage regulations and specific management procedures. SMBC is further strengthening safety measures based on a needs assessment drawing on such references as the Financial Inspection Manual, approved by the FSA, and the Security Guidelines published by the Financial Information Systems Centre.

Since computer-related trouble at financial institutions now has greater potential impact on the public, and systems risk has increased with the information technology revolution and the concomitant use of networks and personal computers, SMBC has taken necessary steps to ensure smooth and secure operation of its information systems. SMBC placed its main system and infrastructure in Tokyo and its back-up system in the Osaka area. To maintain the privacy of customer information and prevent information leaks, SMBC is encrypting sensitive information, blocking unauthorised external access and implementing all known countermeasures to secure its data. SMBC has also established contingency plans and conducted training as required to ensure it is fully prepared in the event of an emergency. SMBC will continue to revise its countermeasures as new technologies and usage patterns emerge to maintain its security.

SMBC includes systems risk in its calculation of risk capital requirements and has allocated a certain percentage of risk capital to cover it, based on the risk quantification results for a financial year.

Derivatives

The main risks associated with derivative transactions are market risk (change in market prices), credit risk (non-fulfilment of obligations), and liquidity risk (lack of marketability at prices in line with recent sales). SMBC uses VaR to manage its exposure to a variety of market risks (for example, interest rate risk and foreign exchange risk) and mark to market its exposure to credit risk periodically. To mitigate liquidity risk, SMBC establishes "dealing" restrictions on amount, currency, instrument and term and sets limits on outstanding contracts of futures transactions. The Treasury Unit, which conducts derivative transactions, is divided into the front office and the middle/back office (administration) to strictly control the entering into and execution of transactions, exposure and profitability.

Information of Derivative Transactions to Which Mark-to-Market Accounting is Applied

Mark-to-market accounting is applied mainly to dealing transactions using derivatives to obtain gains from short-term changes in interest rates, currency rates and other factors. Departments in Tokyo, New York, London, Singapore and other markets proactively deal in derivatives within proscribed limits.

The transactions set forth in the tables below are valuated at market value and the resulting gains (losses) are accounted for in the statement of income. Derivative transactions to which the deferred hedge accounting method is applied are not included in the amounts below.

(1) Interest Rate Derivatives

Market value of interest rate derivatives transactions listed on exchange is calculated mainly using the closing prices on the Tokyo International Financial Futures Exchange and others. Market value of Over-the-

Counter (OTC) transactions is calculated mainly using discounted present value and option pricing models. The following table shows calculations for SMBC's interest rate derivative transactions listed on exchange and for OTC transactions for the periods indicated:

	As at March 31, 2003				As at March 31, 2004			
	Contract amount	(Over 1 year)	Market value	Net gains/ (losses)	Contract amount	(Over 1 year)	Market value	Net gains/ (losses)
	(millions of yen)							
Transactions Listed on Exchange:								
Interest rate futures	¥117,383,087	¥ 10,224,613	¥ 5,850	¥ 5,850	¥179,274,093	¥ 6,287,161	¥ (1,512)	¥ (1,512)
Interest rate options	1,831,703	205,802	(23)	(23)	1,539,546	534,666	22	22
Over-the-Counter Transactions:								
Forward rate agreements	16,859,086	1,045,000	575	575	16,604,447	2,070,000	(1,048)	(1,048)
Interest rate swaps	305,031,482	214,079,553	250,498	250,498	385,010,824	290,122,316	235,969	235,969
Others	13,174,468	8,305,659	(5,433)	(5,433)	14,658,317	8,460,984	6,671	6,671
Total			¥251,467	¥251,467			¥240,101	¥240,101

(2) Currency Derivatives

Market value of currency derivative transactions is calculated mainly using the discounted present value method. Forward foreign exchange and currency options as at March 31, 2003, which are of the following types are not included in the figures below:

(i) those that are revalued at year end. The resulting gain (loss) is accounted for in the statement of income; and

(ii) those that are allotted to financial assets/liabilities by foreign currency and whose market values are already reflected in the amount of the financial assets/liabilities on the balance sheet.

Forward foreign exchange and currency options that were revaluated as at March 31, 2003 are included in the table below from the fiscal year ended March 31, 2004.

The following table shows calculations for SMBC's currency derivative OTC transactions for the periods indicated:

	As at March 31, 2003				As at March 31, 2004			
	Contract amount	(Over 1 year)	Market value	Net gains/ (losses)	Contract amount	(Over 1 year)	Market value	Net gains/ (losses)
	(millions of yen)							
Over-the-Counter Transactions:								
Currency swaps	¥16,433,656	¥8,831,238	¥(39,389)	¥(39,389)	¥16,317,980	¥10,396,658	¥82,675	¥131,136
Others	4,263,429	1,780,541	12,432	12,432	41,334,020	4,911,810	2,385	2,385
Total			¥(26,956)	¥(26,956)			¥85,060	¥133,521

The contract amounts of currency derivatives which are valuated as at March 31, 2003 are as follows:

	As at March 31, 2003
	(millions of yen)
Over-the-Counter Transactions:	
Forward foreign exchange	¥37,271,679
Currency options:	
Sold	3,001,518
Bought	3,195,840

(3) Equity Derivatives

Market value of equity derivative transactions listed on exchange is calculated mainly using the closing prices on the Tokyo Stock Exchange. Market value of OTC transactions is calculated mainly using discounted present value and option pricing models. The following table shows calculations for SMBC's equity derivative transactions listed on exchange and for OTC transactions for the periods indicated:

	As at March 31, 2003				As at March 31, 2004			
	Contract amount	(Over 1 year)	Market value	Net gains/ (losses)	Contract amount	(Over 1 year)	Market value	Net gains/ (losses)
	(millions of yen)							
Transactions Listed on Exchange:								
Stock price index futures	¥ —	¥ —	¥ —	¥ —	¥ 3,349	¥ —	¥ 63	¥ 63
Over-the-Counter Transactions:								
Equity options	0	—	0	0	—	—	—	—
Equity price index swaps	—	—	—	—	—	—	—	—
Others	955	—	0	0	12,127	3,005	79	79
Total			¥ 0	¥ 0			¥143	¥143

(4) Bond Derivatives

Market value of bond derivative transactions listed on exchange is calculated mainly using the closing prices on the Tokyo Stock Exchange. Market value of OTC transactions is calculated mainly using option pricing models. The following table shows calculations for SMBC's bond derivative transactions listed on exchange and for OTC transactions for the periods indicated:

	As at March 31, 2003				As at March 31, 2004			
	Contract amount	(Over 1 year)	Market value	Net gains/ (losses)	Contract amount	(Over 1 year)	Market value	Net gains/ (losses)
	(millions of yen)							
Transactions Listed on Exchange:								
Bond futures	¥248,745	¥ —	¥(455)	¥(455)	¥4,958,852	¥ —	¥(11,705)	¥(11,705)
Bond options	4,000	—	(8)	(8)	338,500	—	(703)	(703)
Over-the-Counter Transactions:								
Forward bond agreements	—	—	—	—	296,334	273,251	1,746	1,746
Bond options	20,729	18,743	0	0	5,242,766	17,086	12,196	12,196
Total			¥(463)	¥(463)			¥ 1,533	¥ 1,533

(5) Commodity Derivatives

Market value of commodity derivative transactions is calculated based on factors such as price of the relevant commodity and contract term. The following table shows calculations for SMBC's commodity derivative OTC transactions for the periods indicated:

	As at March 31, 2003				As at March 31, 2004			
	Contract amount	(Over 1 year)	Market value	Net gains/ (losses)	Contract amount	(Over 1 year)	Market value	Net gains/ (losses)
	(millions of yen)							
Over-the-Counter Transactions:								
Commodity Swaps	¥62,099	¥54,717	¥769	¥769	¥173,166	¥169,256	¥4,190	¥4,190
Commodity options	12,738	8,126	28	28	8,906	8,627	21	21
Total			¥797	¥797			¥4,211	¥4,211

(6) Credit Derivatives

Market value of credit derivative transactions is calculated based on factors such as price of reference assets and contract terms. The following table shows calculations for SMBC's credit derivative OTC transactions for the periods indicated:

	As at March 31, 2003				As at March 31, 2004			
	Contract amount	(Over 1 year)	Market value	Net gains/ (losses)	Contract amount	(Over 1 year)	Market value	Net gains/ (losses)
	(millions of yen)							
Over-the-Counter Transactions:								
Credit Default Options	¥ 75,448	¥41,382	¥ 1,386	¥ 1,386	¥96,200	¥88,840	¥753	¥753
Other	92,290	80,646	5,191	5,191	2,894	—	3	3
Total			¥ 6,578	¥ 6,578			¥757	¥757

Information on derivative transactions to which deferred hedge accounting is applied

SMBC applies individual deferred hedge or fair value hedge accounting based on the Practical Guidelines for Accounting Standard for Financial Instruments as well as deferred hedge accounting for the banking industry based on the Japanese Institute of Certified Public Accountants ("JICPA") Industry Audit Committee Report No. 24 and No. 25.

The following table shows the derivative transactions to which deferred hedge accounting is applied as at the date indicated:

	As at March 31, 2004			
	Assets(1)	Liabilities(2)	Net valuation gains/ (losses)(1)(2)	Deferred gains/ (losses)
	(billions of yen)			
Non-consolidated				
Interest rate swaps	¥ 99.0	¥106.5	¥ (7.5)	¥(59.1)
Currency swaps	1.5	3.9	(2.4)	4.7
Other	2.3	7.3	(5.0)	1.6
Total(2)	¥102.8	¥117.7	¥(14.9)	¥(52.8)

(1) Derivative transactions are carried at fair value in the balance sheet (including hedging purpose derivatives appearing in (1) and (2) in the above table), except those to which the short-cut method is applied.

(2) Gains and losses on derivative transactions are treated as follows:

— Deferred hedge accounting defers gains and losses (as determined based on fair value accounting) on hedging purpose derivatives that do not match the gains and losses realised on the hedged items (as determined based on accrual accounting).

— Hedging purpose swap transactions that meet certain requirements regarding contract amount, receivable/payable condition, contract term and other conditions are recorded on a cost basis using the short-cut method for interest rate swaps, in accordance with the accounting standard for financial instruments.

The following table sets forth (on a non-consolidated basis) the contract amount of interest rate swaps to which deferred hedge accounting is applied, classified by maturity.

	As at March 31, 2004			
	1 year or less	More than 1 year to 5 years	Over 5 years	Total
	(billions of yen)			
Non-consolidated				
Receivable fixed rate/payable floating rate	¥3,768.9	¥20,168.0	¥4,307.6	¥28,244.5
Receivable floating rate/payable fixed rate	865.0	3,089.9	4,460.4	8,415.3
Receivable floating rate/payable floating rate	1.0	613.0	50.8	664.8
Total contract amount	¥4,634.9	¥23,870.9	¥8,818.8	¥37,324.6

Capital Adequacy

Japan's capital guidelines are based on the risk-adjusted approach proposed by the Basel Committee on Banking Supervision for uniform application to all international banks in industrialised countries.

Set forth below is a schedule of risk-adjusted assets and details of qualifying capital of SMBC determined on a consolidated basis:

	As at March 31,	
	2003	2004
	(millions of yen, except percentages)	
Tier I capital	¥ 3,066,351	¥ 3,111,804
Tier II capital:		
Unrealised gains on other securities after 55 per cent. discount	—	245,500
Land revaluation excess after 55 per cent. discount	71,699	68,524
Reserves for possible loan losses (excluding specific reserves)	1,149,150	815,520
Subordinated debt	2,150,334	2,358,572
Total Tier II capital	3,371,184	3,488,117
Tier II capital included as qualifying capital	2,887,170	3,111,804
Deduction	(25,684)	(24,634)
Total capital	¥ 5,927,837	¥ 6,198,974
Risk-adjusted assets:		
On-balance sheet items	¥53,313,337	¥52,359,312
Off-balance sheet items	3,523,317	4,264,272
Market risk items	221,156	268,179
Total risk-adjusted assets	¥57,057,811	¥56,891,764
Tier I risk-adjusted capital ratio	5.37%	5.46%
Total risk-adjusted capital ratio	10.38%	10.89%

SMBC's risk-adjusted capital ratios as at March 31, 2004 were 5.46 per cent. (in the case of consolidated unaudited Tier I capital) and 10.89 per cent. (in the case of consolidated unaudited total capital). The increases in the risk-adjusted capital ratios from March 31, 2003 reflected mainly a decrease in the amount of SMBC's risk-adjusted assets, an increase in the unrealised gains on listed securities and retained earnings, and the amount of additional capital raised through the issuance of subordinated notes and the borrowings of subordinated loans.

Although SMBC had operating loss carryforwards of approximately ¥2,300 billion as at March 31, 2004 for tax purposes, it recorded deferred tax assets based on the fact that such losses are caused by virtue of measures taken to strengthen its balance sheets (such as disposals of non-performing loans and equity securities with unrealised losses).

Significant components of deferred tax assets and liabilities as at March 31, 2003 and 2004 were as follows:

	As at March 31,	
	2003	2004
	(millions of yen)	
Deferred tax assets:		
Net operating loss carryforwards	¥ 442,212	¥1,022,543
Reserve for possible loan losses	922,031	526,076
Write-off of securities	568,077	348,619
Write-off of loans	324,328	286,808
Reserve for employee retirement benefits	109,851	91,426
Net unrealised losses on other securities	10,713	—
Depreciation	9,425	8,122
Reserve for possible losses on loans sold	8,335	—
Other	91,906	87,687
Subtotal	2,486,882	2,371,284
Valuation allowance	(537,897)	(437,924)
Total deferred tax assets	¥1,948,985	¥1,933,359
Deferred tax liabilities:		
Net unrealised gains on other securities	¥ —	¥ (222,213)
Leveraged lease	(48,754)	(50,522)
Gains on securities contributed to employee retirement benefits trust	(25,328)	(26,205)
Undistributed earnings of subsidiaries	(10,614)	(11,818)
Other	(22,706)	(15,477)
Total deferred tax liabilities	¥ (107,403)	¥ (326,236)
Net deferred tax assets	¥1,841,581	¥1,607,122

As at March 31, 2004, deferred tax assets constituted approximately 52 per cent. of SMBC's consolidated Tier 1 capital.

The calculation of net deferred tax assets by SMBC is based on taxable income projections for five years multiplied by the effective tax rates applicable to SMBC. These projections are based on the reasonable tax planning strategy as authorised by the management of SMBC, which is reviewed by SMBC's independent auditors in the process of their audit performed in accordance with generally accepted auditing standards in Japan.

These calculations require SMBC to make estimates and certain assumptions and the results of these calculations may also differ from corresponding calculations made under U.S. or European regulations.

SMBC's ability to realise benefits from its deferred tax assets would be adversely affected to the extent that SMBC's actual taxable income is lower than the projected taxable income used to determine the amount of its deferred tax asset, even though the projected taxable income is conservatively estimated reflecting the uncertainty of the projected amount.

The capital of SMBC is also partially comprised of capital contributions from insurance and other companies in which SMBC has made capital contributions. SMBC's capital ratio would be negatively affected if these cross-capitalisations were restricted or prohibited in the future.

SMBC's capital also depends in part on the fair market value of its securities portfolio since unrealised gains and losses are components of stockholders' equity. Approximately 13 per cent. of SMBC's securities portfolio consists of equity securities, which are primarily common stocks of publicly traded Japanese companies. The common stocks of publicly traded Japanese companies are generally volatile and have declined substantially over the last few years although some recovery has been seen recently. As at March 31, 2004, SMBC's securities (including money held in trust) with a readily ascertainable market value contained ¥545 billion in unrealised gains, of which ¥320 billion appeared in its stockholders' equity. Although it would depend on the particular securities involved, a substantial decline in the Tokyo stock market would likely reduce SMBC's capital substantially.

If the impact of the changes in risk-adjusted assets or loan losses or other relevant factors would otherwise decrease SMBC's capital ratios below 4 per cent. (in the case of Tier I capital) or 8 per cent. (in the case of total capital) in the future, SMBC intends to take actions to seek to maintain its risk-adjusted capital ratios above such levels. Such actions might include additional sales of equity or debt securities and the sale of loans or other assets in order to reduce the amount of risk-adjusted assets. Sales of assets such as equity securities in substantial amounts by SMBC and other financial institutions similarly situated might have adverse effects on the market values for assets of the types sold, which would reduce the amounts realised on such sales. Consequently, there can be no assurance that SMBC will be able to maintain its Tier I and total capital ratios at or above 4 per cent. and 8 per cent., respectively, in the future.

Competition

In recent years in Japan, both weak demand for loan financing and deregulation of interest rates has intensified competition for SMBC, primarily from the other city banks (a group of six banks that are considered to be the largest and most influential group of banks in Japan). At the same time, large Japanese corporations have increasingly raised funds through the capital markets and, as a consequence, have relied to a lesser extent on city banks, such as SMBC, as sources of finance. Internationally, SMBC faces intense competition from major commercial banks.

Additionally, the deregulation of banking activities in Japan, and more generally the Japanese financial system, has accelerated over the past several years. This deregulation is altering two structural features of Japan's financial system: (i) the separation of banking and securities businesses and (ii) distinctions among the permissible activities of Japan's three principal types of private banking institutions: ordinary banks (including both city banks, of which SMBC is one, and regional banks), trust banks and long-term credit banks. Additionally, SMBC faces competition from certain government entities, including Japan Post, the Japan Finance Corporation for Small Businesses and GHLC, although GHLC has been decreasing the amount of new origination and plans to cease origination by March 31, 2007.

Article 65 of the Securities and Exchange Law separates banking business and securities businesses. However, banks in Japan (including SMBC), like their counterparts in the United States, have been seeking authorisation to combine traditional commercial and investment banking activities in order to offer customers a wider range of services. Conversely, securities firms are seeking the authority to engage in activities that have been considered banking activities and have been prohibited. The present policy of the Japanese government is to reduce the barriers between banking and securities businesses in Japan, and SMBC expects increased competition among financial institutions in new areas of permissible activities. The Financial System Reform Law (Law No. 87 of 1992) and the subsequent amendment to the Banking Law now permit banks to establish, or otherwise own domestic and overseas subsidiary securities companies (with the approval of the FSA) to engage in securities business. Also, the amendment to the Securities and Exchange Law enacted as of June 2, 2004 has lifted the ban on banks engaging in securities intermediation. Due to the amendment, starting December 1, 2004, banks will be allowed to solicit customers for securities trades and intermediate the resulting trades for securities companies.

As a result of the deregulation of the banking sector, companies without prior banking operations have formed new banks. For example, in 2001 the banking subsidiaries of Sony Corporation (an electronics manufacturer) and Ito-Yokado Co., Ltd. (a supermarket operator) commenced operations to offer banking services to consumers. Sony Bank Inc. is an Internet based bank focusing on fund-management services. IY Bank uses automated teller machines installed in convenience stores operated by Seven-Eleven Japan Co., Ltd. as its main service access point.

Within the Japanese consumer banking sector, the continuing deregulation of interest rates on yen deposits has enabled banks to offer customers an increasingly attractive and diversified range of new products. SMBC faces competition in this sector from the other city and regional banks as well as from Japan Post, a Japanese public corporation (formerly the Postal Saving Bank, a Japanese government entity) (and the world's largest holder of deposits), that traditionally has had significant competitive advantages over Japanese banks due in large part to its ability to offer fixed interest rates on deposits for terms of up to ten years while allowing depositors to withdraw their funds after only six months. Recently, Japanese banks have started competing with one another by developing innovative proprietary computer technologies that allow them to deliver basic banking services in a more efficient manner and to create sophisticated new products in response to customer demand. In connection with a significant restructuring of its domestic network, SMBC is implementing a plan to replace many of its retail branch offices with specialised distribution facilities and to incorporate advanced technologies to offer new services to its retail customers, such as telephone banking and Internet banking.

In international markets, SMBC faces competition from other commercial banks and similar financial institutions, particularly major international banks and the leading domestic banks in those financial markets outside Japan in which SMBC conducts business.

Property

SMBC owns or leases the land and buildings in which it conducts its business. Most of the property in which SMBC operates in Japan is owned by SMBC. In contrast, SMBC's international operations are conducted out of leased premises.

As at March 31, 2004, the property owned by SMBC was as follows:

	Land (square metres)
Branch network	254,643
Other facilities	743,342
Total	997,985

Legal Matters

SMBC is party to routine litigation incidental to its business, none of which is currently expected to have a material adverse effect on SMBC's financial condition or results of operations.

MANAGEMENT AND EMPLOYEES

SMFG's Management

Under SMFG's corporate governance system, its Board of Directors is in charge of supervising the business operations of the SMFG group as a whole, and has established three board committees to assist SMFG's Board of Directors in exercising its management responsibilities. Those committees are the risk management committee, the compensation committee and the nominating committee. SMFG's Board of Directors is comprised of eight directors, two of whom are outside directors as defined under the Commercial Code, and its Board of Corporate Auditors is comprised of five corporate auditors, three of whom are outside corporate auditors as defined under current Japanese law.

The following persons occupy the indicated positions at SMFG:

Name	Title
Akishige Okada(1)	Chairman of the Board
Yoshifumi Nishikawa(1)	President and Chief Executive Officer
Teisuke Kitayama(2)	Deputy President
Koji Ishida(2)	Senior Managing Director
Masahide Hirasawa(1)	Director
Mitsuaki Yahagi(1)	Director
Yoshiaki Yamauchi(2)(3)	Director
Yoichiro Yamakawa(2)(3)	Director
Toyosaburo Hirano(1)	Corporate Auditor
Sadao Kobayashi(1)	Corporate Auditor
Katsuya Onishi(1)	Corporate Auditor
Josei Itoh(2)	Corporate Auditor
Hiroshi Araki(2)	Corporate Auditor

(1) Holds positions both at SMFG and at SMBC.

(2) Holds a position at SMFG only.

(3) Outside director as defined under the Commercial Code.

SMFG's Board of Directors has ultimate responsibility for the administration of SMFG's affairs. The Corporate Auditors (who are not required to be and are not certified public accountants) have the statutory duty to examine the financial statements and business reports submitted by the Board of Directors to the shareholders and also to supervise the administration by the Directors of SMFG's affairs in accordance with the auditing policy and rules relating to the execution of Corporate Auditors' duties as prescribed by resolutions of the Board of Auditors. All Directors and Corporate Auditors are elected by the shareholders of SMFG at general meetings. The normal term of office for Directors is two years and the normal term of office for Corporate Auditors is four years but Directors and Corporate Auditors may serve any number of consecutive terms.

Three subcommittees of SMFG's Board of Directors were created to enhance the ability of the Board of Directors to oversee the operations of SMFG: the risk management committee, the compensation committee and the nominating committee. The risk management committee supervises and reports to SMFG's Board of Directors on overall risk management policies, market and liquidity risk management policies, credit risk management policies, related risk management systems and other issues with a potential material impact on operations. The compensation committee supervises and reports to SMFG's Board of Directors on the remuneration of the members of the Board of Directors and other key personnel of both SMFG and its subsidiaries, and other issues related to remuneration, salaries and incentive plans. The nominating committee supervises and reports to SMFG's Board of Directors on the selection of directors, the selection of representative directors, and issues related to the appointment of the President and other key personnel of both SMFG and its subsidiaries.

SMBC's Management

SMBC's Board of Directors has ultimate responsibility for the administration of SMBC's affairs and provides effective oversight of operations. In order to distinguish between operational management and oversight functions, SMBC operates a Management Committee that is a decision-making institution responsible for operational matters. The President chairs the Management Committee and appoints executive officers to it. In addition, SMBC operates an Internal Audit Unit that has responsibility for conducting internal audits on an objective basis in a process that is separate from the oversight provided by the Board of Directors. The Internal Audit Unit also acts independently from the business units. As a consultative body to the Chairman of the Board and the President, SMBC also operates the Advisory Board, described below. The Chairman of the Board of Directors is prohibited from assuming direct responsibility for operational duties and his primary duty is to oversee and control.

The Corporate Auditors (who are not required to be and are not certified public accountants) have the statutory duty to examine the financial statements and business reports submitted by the Board of Directors to the shareholders and also to supervise the administration by the Directors of SMBC's affairs in accordance with the auditing policy and rules relating to the execution of Corporate Auditors' duties as prescribed by resolutions of the Board of Auditors. All Directors and Corporate Auditors are elected by the shareholders of SMBC at general meetings. The normal term of office for Directors is two years and the normal term of office for Corporate Auditors is four years, but Directors and Corporate Auditors may serve any number of consecutive terms.

SMBC is required to appoint independent certified public accountants, who are elected at a general meeting of shareholders and who have as their primary statutory duties the examination of the financial statements prepared in accordance with the Commercial Code and approved by the Board of Directors, and the reporting of their opinion thereon to the Board of Auditors and to the Representative Directors for notification to the shareholders. Examination by independent certified public accountants of the financial statements of SMBC is also required for the purpose of the securities report filed through the Kanto Local Finance Bureau to the Prime Minister for public inspection in accordance with the Securities and Exchange Law. SMBC's independent certified public accountants for such purposes are KPMG AZSA & Co.

The names and titles of the Directors and Auditors of SMBC as at the date of this Offering Circular are as follows:

Name	Title
Akishige Okada	Chairman of the Board
Yoshifumi Nishikawa*	President and Chief Executive Officer
Takeharu Nagata*	Deputy President
Masayuki Oku*	Deputy President
Toichiro Mizushima*	Deputy President
Hiroyasu Ichikawa*	Senior Managing Director
Morio Kusunoki*	Senior Managing Director
Koichi Tsukihara*	Senior Managing Director
Masahide Hirasawa*	Senior Managing Director
Mitsuaki Yahagi*	Senior Managing Director
Yasuyuki Kimoto*	Managing Director
Kenjiro Nakano*	Managing Director
Shigeru Nishiyama*	Managing Director
Hitoshi Yoshimatsu*	Managing Director
Kazutoshi Katsumata	Corporate Auditor
Tatsumasa Matsumoto	Corporate Auditor
Katsuya Onishi	Corporate Auditor
Toyosaburo Hirano	Corporate Auditor
Sadao Kobayashi	Corporate Auditor

* Also acting as an Executive Officer.

All of the above Directors are engaged in the business of SMBC on a full-time basis. The business address of the Directors of SMBC is 1-2, Yurakucho 1-chome, Chiyoda-ku, Tokyo 100-0006.

SMFG has issued to various Directors and members of senior management of both SMFG and SMBC stock options, representing the right to purchase an aggregate 1,620 shares of SMFG's common stock as of June 30, 2004.

In July 2001, SMBC established an Advisory Board composed of individuals from the business and academic communities who are independent of the SMBC Group. The board serves as an advisory body to the Chairman of the Board and the President and Chief Executive Officer. As such, the Advisory Board provides a broad range of advice to management issues and strategies as well as insights on trends and issues in the financial services industry for consideration when making top management decisions. As at the date of this Offering Circular, the following individuals were members of the Advisory Board:

Name	Title
Shoichiro Toyoda	Honorary Chairman and Member of the Board, Toyota Motor Corporation
Naohiko Kumagai	Senior Advisor to the Board, Mitsui & Co., Ltd.
Tetsuro Kawakami	Senior Advisor, Sumitomo Electric Industries, Ltd.
Yoshinori Yokoyama	Former Director, McKinsey & Company, Inc. Japan

Employees

As at March 31, 2004, SMBC had 22,348 employees (excluding temporary, part-time and overseas local staff). SMBC reduced the number of its employees in excess of its original projections.

Most of the employees of SMBC are members of the Sumitomo Mitsui Banking Corporation Workers' Union, which negotiates with SMBC concerning remuneration and working conditions. The Union is affiliated with the Federation of City Bank Workers' Unions. SMBC considers its labour relations to be excellent.

SMBC considers its level of remuneration, fringe benefits (including an employee share ownership programme), working conditions and other allowances, which include lump-sum payments and annuities to employees upon retirement, to be generally competitive with those offered in Japan by other large enterprises.

SUBSIDIARIES, AFFILIATES AND ASSOCIATED COMPANIES

SMBC offers many of its banking and related services through subsidiaries and affiliates. At March 31, 2004, SMBC had 82 subsidiaries and 8 affiliates in Japan and 39 subsidiaries and 12 affiliates outside of Japan. In total, the accounts of 114 of SMBC's subsidiaries were consolidated with those of SMBC and 4 subsidiaries and 11 affiliates were accounted for by the equity method. The consolidated accounts of SMBC do not include the accounts of other subsidiaries or affiliates which would not have a material impact on such consolidated accounts.

The following table sets forth certain information with respect to certain of SMBC's subsidiaries, affiliates and associated companies as at the date of March 31, 2004:

Domestic

Company Name	Issued Capital (Millions of yen)	Percentage of Voting Rights*		Established	Main Business
Principal Subsidiaries					
SAKURA CARD CO., Ltd.	7,438	95.74	(27.25)	February 23, 1983	Credit card services
At-Loan Co., Ltd.	17,500	52		June 8, 2000	Loans
The Japan Net Bank, Limited	20,000	57		September 19, 2000	Commercial banking via Internet
SMBC Loan Adviser Co., Ltd.	10	100		April 1, 1998	Consulting and agency services for consumer loans
SMBC Guarantee Co., Ltd.	87,720	100		July 14, 1976	Credit guarantee
Sansei Guarantee Co., Ltd.	48	100		April 1, 1974	Credit guarantee
SMBC Loan Servicer Co., Ltd.	500	60		July 28, 1999	Servicer
SMBC Finance Service Co., Ltd.	71,705	100		December 5, 1972	Factoring, loans and collecting agent
SMBC Capital Co., Ltd.	2,500	59.8	(20)	August 1, 1995	Venture capital
SMBC Consulting Co., Ltd.	1,100	75	(25)	May 1, 1981	Information service
Financial Link Company, Limited	160	99.66		September 29, 2000	Information processing service and management consulting
SMBC Support & Solution Co., Ltd.	10	100		April 1, 1996	Advertisement, information processing service
SMBC Mortgage Co., Ltd.	18,182	51.85	(3.09)	October 14, 1983	Mortgage securities
SMBC Business Servicing Co., Ltd.	500	100		March 11, 1999	Servicer
SMBC Friend Securities Co., Ltd.	27,270	47.46	(3.83)	March 2, 1948	Securities
Sakura Information Systems Co., Ltd.	600	69	(64)	November 29, 1972	System engineering and data processing
SAKURA KCS Corporation	2,054	35.21	(30.21) [17.67]	March 29, 1969	System engineering and data processing
THE MINATO BANK, LTD.	24,908	50.00	(1.58)	September 6, 1949	Commercial banking
Kansai Urban Banking Corporation	32,500	44.59	(0.48) [5.96]	July 1, 1922	Commercial banking
SMBC Staff Service Co., Ltd.	90	100		July 15, 1982	Temporary manpower service
SMBC Learning Support Co., Ltd.	10	100		May 27, 1998	Seminar organiser
SMBC PERSONNEL SUPPORT CO., LTD.	10	100		April 15, 2002	Banking clerical work
SMBC Center Service Co., Ltd.	100	100		October 16, 1995	Banking clerical work
SMBC Delivery Service Co., Ltd.	30	100		January 31, 1996	Banking clerical work
SMBC Green Service Co., Ltd.	30	100		March 15, 1990	Banking clerical work
SMBC International Business Co., Ltd.	20	100		September 28, 1983	Banking clerical work
SMBC International Operations Co., Ltd.	40	100		December 21, 1994	Banking clerical work
SMBC Loan Business Service Co., Ltd.	40	100		September 24, 1976	Banking clerical work
SMBC Market Service Co., Ltd.	10	100		February 3, 2003	Banking clerical work
SMBC Loan Administration and Operations Service Co., Ltd.	10	100		February 3, 2003	Banking clerical work
SMBC Property Research Service Co., Ltd.	30	100		February 1, 1984	Banking clerical work
SMBC Total Maintenance Co., Ltd.	450	100		October 7, 1994	Disposal of real estate collateral

Company Name	Issued Capital (Millions of yen)	Percentage of Voting Rights*		Established	Main Business
Principal Affiliates					
Sumitomo Mitsui Asset Management Company, Limited	2,000	17.5		December 1, 2002	Investment advisory and investment trust management
Japan Pension Navigator Co., Ltd.	4,000	30		September 21, 2000	Operation and administration of defined contribution pension plans
QUOQ Inc.	1,000	23.15	(9.26)	April 5, 1978	Purchase of monetary assets and credit guarantee

Overseas

Company Name	Issued Capital	Percentage of Voting Rights*		Established	Main Business
Principal Subsidiaries					
Sumitomo Mitsui Banking Corporation Europe Limited	U.S.$1.7 billion	100		March 5, 2003	Commercial banking
Manufacturers Bank	U.S.$80.8 million	100		June 26, 1962	Commercial banking
Sumitomo Mitsui Banking Corporation of Canada	C$121.87 million	100		April 1, 2001	Commercial banking
Banco Sumitomo Mitsui Brasileiro S.A.	R$309.4 million	100		October 6, 1958	Commercial banking
PT Bank Sumitomo Mitsui Indonesia	Rp1,502.4 billion	98.28		August 22, 1989	Commercial banking
SMBC Leasing and Finance, Inc.	U.S.$1,620	97.38	(7.69)	November 9, 1990	Leasing and investments
SMBC Capital Markets, Inc.	U.S.$100	100	(10)	December 4, 1986	Investments and derivatives
SMBC Securities, Inc.	U.S.$100	100	(10)	August 8, 1990	Securities
SMBC Financial Services, Inc.	U.S.$300	100		August 8, 1990	Investments and investment advisory
SMBC Cayman LC Limited	U.S.$1,375 million	100		February 7, 2003	Guarantee
Sumitomo Finance (Asia) Limited	U.S.$35 million	100		September 26, 1973	Investments, commercial banking, securities and investment advisory
SBTC, Inc.	U.S.$1	100		January 26, 1998	Investments
SB Treasury Company L.L.C.	U.S.$470 million	100	(100)	January 26, 1998	Loans
SB Equity Securities (Cayman), Limited	¥1 million	100		December 15, 1998	Finance
SFVI Limited	U.S.$300	100		July 30, 1997	Finance
Sakura Finance (Cayman) Limited	U.S.$100 thousand	100		February 11, 1991	Finance
Sakura Capital Funding (Cayman) Limited	U.S.$100 thousand	100		July 15, 1992	Finance
Sakura Preferred Capital (Cayman) Limited	¥10 million	100		November 12, 1998	Finance
SMBC International Finance N.V.	U.S.$200 thousand	100		June 25, 1990	Finance
SMBC Capital Markets Limited	U.S.$297 million	100		April 18, 1995	Derivatives
SMBC Derivative Products Limited	U.S.$300 million	100	(100)	April 18, 1995	Derivatives
Sumitomo Finance International plc	£200 million	100		July 1, 1991	Finance
Sumitomo Mitsui Finance Dublin Limited	U.S.$18 million	100		September 19, 1989	Finance
Sakura Finance Asia Limited	U.S.$65.5 million	100		October 17, 1977	Finance
Sumitomo Mitsui Finance Australia Limited	A$102.5 million	100		June 29, 1984	Finance
Sakura Merchant Bank (Singapore) Limited	S$4 million	100		April 18, 1990	Finance

* Figures in ( ) indicate percentages of voting rights held by SMBC's subsidiaries. Figures in [ ] indicate percentages of voting rights held by companies in close relationship with SMBC and companies consent to vote.

THE JAPANESE BANKING SYSTEM

The Japanese banking system is broadly divided into three groups: a central bank, public financial institutions, and private-sector banking institutions. The Bank of Japan is the Japanese central bank and has responsibility for the regulation of currency, the control and facilitation of credit and finance and the maintenance and development of the credit system. See "Supervision and Regulation — Japan — The Bank of Japan". There are a number of public financial institutions, such as the Development Bank of Japan and the Japan Bank for International Cooperation, which have been organised in order to provide funding for specific matters, and to supplement the activities of the private-sector banking institutions. Their funds are provided mainly from government sources.

According to the classifications by the FSA and the latest figures available as of June 30, 2004, private-sector banking institutions in Japan consist of (i) 199 ordinary banks, of which they are 6 city banks, 114 regional banks, 72 foreign banks and 7 "new type" banks, (ii) 26 trust banks, and (iii) 1 long-term credit bank and Shinsei Bank, Limited, which had hitherto been a long-term credit bank and became an ordinary bank on April 1, 2004.

In general, the operations of ordinary banks correspond to commercial banking operations in the United States or Europe. Their main sources of funds are deposits from the public. City banks and regional banks are distinguished on the basis of head office location as well as the size and scope of their operations.

The city banks are generally considered to be the largest and most influential group of banks in Japan. These banks are based in either Tokyo, Osaka or Nagoya, and operate domestically on a nationwide scale through networks of branch offices. City banks, unlike regional banks, have strong links with large corporate clients, including the major industrial companies in Japan; however, in light of deregulation and other competitive factors, many of these banks (including SMBC) have placed increasing emphasis on other markets, including SMEs, retail banking, international operations and, more recently, investment banking and related services.

With some exceptions, the regional banks tend to be much smaller in terms of total assets than the city banks. Each of the regional banks is based in one of the Japanese prefectures and may extend its operations into neighbouring prefectures. Their clients are mostly regional enterprises and local public utilities, although the regional banks also lend to large corporations.

There are 72 foreign banks operating banking businesses in Japan. They are subject to a statutory framework similar to the regulation of Japanese domestic banks. Their principal sources of funds come from their overseas head offices or other branches.

The "new type" banks include Internet banks, such as Japan Net Bank and Sony Bank Inc., and specialised banks, such as IY Bank, operated by Ito-Yokado Co. Ltd., a supermarket operator.

Both long-term credit banks and trust banks have been engaged primarily in providing long-term loans to Japanese industry, principally with funds obtained from the issue of debentures in the case of the long-term credit banks and beneficiary certificates in the case of the trust banks. Other banks also make long-term loans.

Certain other private-sector financial institutions in Japan, including agricultural and marine cooperative financial institutions, credit associations and credit unions, are mainly engaged in making loans to small businesses and individuals.

Another distinctive element of the Japanese banking system is the role of the postal savings system. Postal savings deposits are gathered through the network of post offices throughout Japan. The Japan Post Law and three other related laws were promulgated on July 31, 2002, and as a result, Japan Post took over postal services, including postal savings, as at April 1, 2003. The postal savings system offers a variety of types of deposits, at interest rates that are set by Japan Post in accordance with the policy of determination of interest rates approved by the Minister of Public Management, Home Affairs, Posts and Telecommunications with some reference to the market-based interest rates of the private-sector banks. The funds are used to finance various government activities and investments in the public sector. As at May 31, 2004, the balance of deposits with the postal savings system was approximately ¥225.7 trillion, representing approximately one-third of all household deposits in Japan.

Since October 2003, issues relating to the privatisation of postal services have been discussed at the Council on Economic and Fiscal Policy (the "Council"), an organisation set up by the Cabinet Office in January 2001 with the aim of strengthening prime minister's political leadership in relation to economic and fiscal policies. The Council published a progress report on April 26, 2004, which set forth major issues under discussion by the Council regarding the privatisation of postal services (the "Postal Services Report"). In connection with postal savings, the Postal Services Report suggests, among other things, that the substantial amount of money held by

Japan Post should be treated the same as the money held in the private-sector financial institutions and that public support to the postal savings newly made after privatisation should be on a parity with public support to the deposits held by private-sector financial institutions. Proposals for the privatisation of postal services are expected to be finalised in Autumn 2004 and the related bills will be submitted to the next ordinary session of the Diet convening in January 2005. According to the Postal Services Report, the privatisation of postal services is expected to take place in 2007.

The present banking system evolved from measures adopted as part of the reconstruction of the Japanese economy after World War II. Such reconstruction, as it applied to financial markets, was initially guided by such principles as the separation between long-term and short-term financing, the separation of trust banking from other types of banking, and the separation of banking from the securities business. However, in 1992, the Financial System Reform Law was passed and removed many of the legal barriers between various segments of the financial services industry. As a result of this legislation and the subsequent modifications to the relevant laws and regulations (including those which enabled city banks themselves to engage in the trust business, effective February 2002), ordinary banks, trust banks and long-term credit banks, directly or through subsidiaries, may now engage in securities activities, and ordinary banks and long-term credit banks may engage in certain trust banking business without restrictions. In turn, securities companies may perform a full range of banking and certain trust banking functions through subsidiaries. In addition, the prohibition on bank holding companies was lifted in March 1998, and the prohibition on issuances by an ordinary bank of corporate bonds was completely lifted in October 1999.

Commencing December 1998, the barrier between banking and insurance businesses has also been gradually lifted, and now banks and insurance companies can engage in the other business through subsidiaries. Also, since April 2001, banks themselves have been permitted to sell certain insurance products, and the scope of such insurance products permitted to be sold by banks were expanded in October 2002.

In addition, the recent injection of significant public funding into many Japanese banks has substantially increased the overall level of the national government's ownership in the banking sector, which may produce unforeseen effects on competitive conditions, economic health and further deregulation in the industry.

SUPERVISION AND REGULATION

Japan

Pursuant to the Banking Law, the FSA is given authority to supervise banks, bank holding companies and bank's principal shareholders (being shareholders of a bank having 20 per cent. (or 15 per cent. in certain cases) or more of the voting rights of a bank) in Japan. The Bank of Japan also has supervisory authority over banks in Japan based primarily on its contractual agreements and transactions with Japanese banks. Only companies licenced by the Prime Minister are defined as banks under the Banking Law, and only a *kabushiki kaisha* (a stock corporation) with paid-up capital of ¥2 billion or more may be licenced as such.

The Financial Services Agency

Scope of Supervision. The FSA has had supervisory control over the banks and bank holding companies in Japan since July 1, 2000. The FSA was established on July 1, 2000 through the integration of the Financial Supervisory Agency (which had supervisory control over banks and exercised the power of control delegated from the FRC) and the Financial System Planning Bureau of the Ministry of Finance (which had the function of planning and drafting related bills) pursuant to the Central Government Reform Fundamental Law which was enacted in June 1998. The FRC, which had controlled the Financial Supervisory Agency, was abolished in January 2001 and the authority of the FRC was transferred to the Prime Minister, who, under the Banking Law, transferred such authority to the FSA. As a result, all the functions of supervision of financial institutions were unified in the FSA, except that in cases in which systemic risk is anticipated, the Prime Minister retains the authority to take necessary measures after consulting with the Conference for Financial Crisis Countermeasures. Under the Banking Law, the FSA's supervisory control over banks, bank holding companies and bank's principal shareholders in Japan extends to various areas, including approval of applications for licences to operate a bank or bank holding company, approval of becoming a principal shareholder, approval of reductions in capital, approval of changes of corporate name, approval of the establishment or closure of overseas offices, approval of establishment or acquisition of certain subsidiaries and acquisition of more than 5 per cent. of the voting rights in Japanese companies other than subsidiaries, approval of mergers, corporate splits or business transfers, and approval of dissolutions or discontinuations of business by existing banks. The FSA also has the authority to revoke banking licence or to instruct Japanese banks to suspend their business or to remove directors if such banks violate laws, other regulations or their articles of incorporation or commit acts contrary to public policy and, in the case of Japanese banks which are in financial difficulty, to direct such banks to hold certain property in Japan for the protection of depositors and to issue such other orders as it may deem necessary. Under the ''prompt corrective action'' system, the FSA may take certain corrective actions in the case of capital deterioration of financial institutions. These actions include (i) requiring a financial institution to formulate and implement reform measures, (ii) requiring it to reduce its assets or take other specific actions and (iii) issuing an order suspending all or part of its business operations.

The Ministry of Finance and the FSA have, in the past several years, introduced a number of deregulatory measures into the banking sector in Japan, as well as measures to increase the transparency of the regulatory process, including the following:

Credit Limit. The Banking Law restricts the aggregate amount of loans, guarantees and capital investments to any single customer for the purposes of avoiding excessive concentration of credit risks and promoting a fair and extensive utilisation of bank credit. The limit applicable to an ordinary bank in respect of aggregate exposure by such bank to any single customer is established by a cabinet order and by the Banking Law, and is currently 40 per cent. (or 25 per cent. if such customer is a principal shareholder of the bank) of such bank's total qualifying capital in respect to aggregate exposure to any single customer including certain of such customer's affiliates or 25 per cent. (or 15 per cent. if such customer is a principal shareholder of the bank) of such bank's total qualifying capital in respect to aggregate exposures to any single customer not including such customer's affiliates. The same restriction applies to a bank group on a consolidated basis. The aggregate exposure by a bank group (the bank, its subsidiaries and certain affiliates) to a single customer and a customer including certain of such customer's affiliates is 25 per cent. and 40 per cent., respectively (or 15 per cent. or 25 per cent., respectively, if such customer is a principal shareholder of the bank), of the total qualifying capital of such group companies.

Disclosure. Under the Banking Law, banks and bank holding companies are required to disclose their non- and under-performing loans (consolidated and non-consolidated) as ''risk-monitored loans''. Risk-monitored loans are classified under the Banking Law into four categories: (i) bankrupt loans, (ii) non-accrual loans, (iii) past due loans (three months or more) and (iv) restructured loans. Banks and bank holding companies are required to submit annual and semi-annual reports to the FSA on their business including the amount of such loans. Also, as to the corporate disclosure as a whole, banks and bank holding companies are required to disclose their financial statements consisting of the balance sheet and income statement, and the explanatory documents regarding their business and asset conditions, each prepared under the Banking Law both on a non-consolidated and consolidated basis. The requirement of consolidated financial disclosure was made applicable commencing the year ended March 31, 1999. In addition, independent of the Banking Law disclosure regulations, the Financial Reconstruction Law requires banks to disclose their problem assets. Under the Financial Reconstruction Law, assets are classified into four categories: (i) bankrupt and quasi-bankrupt assets, (ii) doubtful assets, (iii) substandard loans and (iv) normal assets. Generally, bankrupt and quasi-bankrupt assets correspond to the total of bankrupt loans and the lower tier of the non-accrual loans (the borrowers of which are effectively bankrupt) under the Banking Law disclosure. Doubtful assets generally correspond to the higher tier portion of the non-accrual loans (the borrowers of which are not, but have the potential to become, bankrupt). The substandard loans generally correspond to the total of the restructured loans and past due loans (three months or more). Bankrupt and quasi-bankrupt assets and doubtful assets also include non-loan assets, such as securities lending, foreign exchange, accrued interest, advanced payments and customers' liabilities for acceptances and guarantees.

In addition, the FSA has announced that it will provide for more rigorous assessment of assets. See ''Recent Events — Recent Regulatory Developments — Tightening of Assessment of Assets''.

Furthermore, in October 2003 the FSA requested major banks to enhance their disclosure of information on deferred tax assets, which form an important part of capital, in respect of the basis for inclusion as deferred tax assets of taxable income over the past five years, projected amount of actual net business profit assumed in the estimation, projected amount of net income before taxes assumed in the estimation and estimated amount of taxable income before adjustments.

Deferred tax assets. On June 22, 2004, the FSA issued a Report of the Working Group on Regulation of Capital Adequacy Ratio, which is one of the subcommittees of the Financial System Council. The Report relates to issues regarding the regulatory treatment of deferred tax assets in calculating capital adequacy ratios and other issues related to capital adequacy of banks. The Report expresses a broad support for the introduction of certain regulations on proper treatment of deferred tax assets in calculating capital adequacy ratios, while emphasising the necessity to consider matters such as the effect of such modification on the Japanese financial system, and consistency with the governmental macro-economic policy and relationship with the tax system. The Report also draws attention to the fact that the major banks are currently aiming to reduce their ratio of non-performing loans to total outstanding loans by half by the end of March 2005 as compared to March 2002 under the FSA's Programme, and recommends that any modification of regulations relating to deferred tax assets should occur after the banks achieve such aims; the Report also recommends that any such modifications should be gradual and with transitional measures. However, the Report does not set out any concrete measures for implementation rather it calls for the FSA to further examine the situation and made a decision based upon the Report.

Reserves. Based on the Accounting Standards for Banks issued by the Japanese Bankers Association, SMBC, for statutory purposes, establishes three categories of reserves: (i) general reserve, (ii) specific reserves and (iii) reserves for specific overseas loan losses.

The general reserve is established to account for an amount at a certain rate of the aggregate amount of certain outstanding loans of SMBC at each balance-sheet date. For Japanese taxation purposes until March 31, 1998, SMBC was able to choose as a tax-deductible reserve, either the fixed rate of 0.3 per cent. of the aggregate outstanding amount of certain loans as specified by Japanese tax regulations at each balance sheet date or any rate not exceeding the average loan loss ratio of SMBC for the previous three fiscal years. As a consequence of amendments to Japanese tax law effective April 1, 1998, the fixed rate of 0.3 per cent. applicable to tax-deductible reserves has been abolished subject to limited exceptions. Up until March 2003, SMBC was able to select a fixed rate subject to the gradual reduction of such rate until its elimination after March 2003. Specific reserves are established for specific loans, the repayment of which is considered materially doubtful, in the same amounts as the amount of the expected losses on such loans. Reserves for specific overseas loan losses are maintained to provide for possible losses on loans to certain countries which are classified as restructuring countries.

Due to the introduction of the new self-assessment rule of the credit quality of the assets of financial institutions, including SMBC, as well as the ''prompt corrective actions'' system, SMBC may establish such amount of any reserves for its loan portfolio as may be considered adequate by SMBC at a balance sheet date.

In January 1999, the FRC announced its guidelines concerning write-offs and reserves in respect of problem loans required of the large banks, which applied for capital injection pursuant to the Financial Function Early

Strengthening Law and Financial Reconstruction Law. Thereafter, the FSA issued operating guidelines, the Financial Inspection Manual, on inspection of financial institutions including credit-risk management and the standards concerning write-offs and reserves. Although the Financial Inspection Manual itself does not have the force of law, the FSA inspection of banks is based on the Manual. As a result of such inspection, the FSA may exercise its authority over banks under the Banking Law to suspend or terminate their banking business.

The FSA also issued non-binding guidelines to clarify their interpretation and enforcement policies of the Banking Law and related regulations. It also discloses the results of its investigations of banks and other financial companies.

Examination of Banks. The Banking Law authorises the FSA to inspect banks and bank holding companies in Japan at any time with any frequency but in practice inspections occur once a year, conducted by officials from the Inspection Department of the FSA. From January through March of 2003, the FSA conducted a special inspection of the major 11 banks, including SMBC, as to how banks should properly classify their borrowers according to the credit risks. The inspection covered 167 borrowers of which 27 were downgraded as against the classifications given by the banks as at September 2002, and reclassified a total of 7 borrowers as "potentially bankrupt". The FSA conducted a further round of special inspections for the year ended March 31, 2004 focusing again on 11 major Japanese banks, including SMBC. The inspection this time covered 133 borrowers across the 11 banks. As a result of the further special round of inspections, the FSA downgraded a total of 26 borrowers (compared to the classifications given by such banks as at September 2003) and reclassified a total of 22 borrowers as "potentially bankrupt borrowers".

The current examination system encompasses the following three types of inspections:

- Regular inspections conducted on a regular basis focusing not only on loan review and reserving but also on credit risk management, governance and overall management control of banks. The regular inspections occur generally once a year;

- Special inspections conducted generally once a year (with semi-annual follow up sessions) of all major banks, including SMBC, since October 2001 to improve the loan-review process. Special inspections are "special" (in contrast to "regular" inspections) in so far as they primarily focus only on the asset quality of banks, in particular on the categorisation of loans to certain large borrowers; and

- Inspections focusing on banks' credit risk management for large borrowers, which will target major banks whose credit risk management for large borrowers is deemed to be problematic, based on the results of examinations of their reconstruction plans at the special inspection, and in consideration of subsequent interviews conducted in response to reports under Article 24 of the Banking Law. The purpose of the inspection is to examine whether or not the banks are taking proper action in terms of their credit risk management for large borrowers. This type of inspection has only recently been introduced.

In addition, the Ministry of Finance conducts examinations of banks in relation to foreign exchange transactions under the Foreign Exchange and Foreign Trade Law. Such examinations are conducted normally once every few years.

Furthermore, the Bank of Japan conducts examinations of banks similar to those undertaken by the FSA. Such examinations are normally conducted once every few years. Notice is served prior to the examiner's visit. The inspection is conducted for the purposes of checking day-to-day operations and giving pertinent advice.

Deposit Insurance System

In 1971, the Deposit Insurance Law was enacted in order to protect depositors in cases where financial institutions fail to meet their obligations. The DIC was established to implement the law. The DIC was reformed, as part of the Japanese government's plan to liquidate the *jusen* in accordance with legislation enacted in June 1996, by the creation of a special fund amounting to ¥1 trillion and the increase of its paid-up capital of ¥455 million to ¥5.45 billion. Currently the DIC is supervised by the FSA.

In April 2002, the Japanese government ceased to ensure time deposits over ¥10 million. As from April 2002, the DIC receives annual insurance premiums from ensured banks equivalent to 0.094 per cent. (as from April 2003, 0.09 per cent.) of the deposits held with current, savings and sundry accounts and 0.08 per cent. of the other deposits. A special insurance premium of 0.036 per cent. of deposits required for the years ended March 31, 1997 through 2002 to cover the costs for the insurance exceeding the otherwise applicable ¥10 million cut-off amount is no longer required upon discontinuation of the full coverage of the deposits. Premiums held by the DIC may be either deposited at financial institutions or used to purchase marketable securities. The insurance money may be paid out in case of suspension of repayments of deposits, banking licence revocations, dissolution or bankruptcy of a bank, to a maximum of ¥10 million of principal amount together with any interest accrued with respect to each depositor. Until March 31, 2005, however, the full amount of deposit exceeding the maximum of ¥10 million will be repaid only with respect to the current, savings and sundry accounts. Even after March 2005, non-interest bearing deposits that are redeemable upon demand and used by depositors primarily for payment and settlement functions will be protected in full. See "Recent Events — Recent Regulatory Developments — Extension of Deposit Guarantee".

City banks (including SMBC), regional banks including member banks of the second association of regional banks, long-term credit banks, trust banks, credit associations, credit cooperatives and labour banks participate in the deposit insurance system on a compulsory basis.

The Bank of Japan

The Bank of Japan is the central bank of Japan and serves as the principal instrument for the execution of Japan's monetary policy. The principal measures by which the Bank of Japan implements monetary policy are the adjustment of its discount rate, its operations in the open market and the imposition of deposit reserve requirements. All ordinary banks in Japan maintain deposits with the Bank of Japan and rely substantially upon obtaining borrowings from, and rediscounting bills with, the Bank of Japan. Moreover, all banks in Japan maintain current accounts under agreements with the Bank of Japan pursuant to which the Bank of Japan is entitled to supervise, examine and audit the banks. The supervisory functions of the Bank of Japan enable it to seek to execute monetary policy effectively, while the FSA's supervisory practices have the purpose of maintaining the sound operations of banks in Japan and of promoting the security of depositors. The Bank of Japan examinations are normally conducted once every few years, and involve such matters as examining asset quality, risk management and reliability of operations. Through these examinations, the Bank of Japan seeks to identify problems at an early stage and give corrective guidance where necessary.

In June 1997, the law establishing the Bank of Japan was amended with the intention of granting greater independence to the Bank of Japan with respect to, *inter alia*, the setting of interest rates and giving additional power to aid financial institutions with liquidity problems. The amendment came into effect on April 1, 1998. Under the amended law, the Bank of Japan's examination of banks is given a more transparent statutory basis.

The Securities and Exchange Law

Article 65 of the Securities and Exchange Law was intended to clearly separate the commercial banking and securities business in Japan. Under this law, banks, including SMBC, may not engage in any securities business except for certain approved activities. The Securities and Exchange Law now allows banks to underwrite and deal in JGBs, Japanese local government bonds, Japanese government guaranteed bonds, commercial paper and certain bonds issued by special purpose companies; to sell beneficiary certificates of security investment trusts and investment securities in a security investment company; and to engage in listed or over-the-counter securities derivatives transactions subject to the registration with or the approval of the FSA. The securities business is defined to include dealing, brokerage, underwriting and distribution of securities.

The Financial System Reform Law (which came into effect in April 1993) permits financial institutions and securities firms to compete through subsidiaries. Banks and other depository institutions are now allowed to set up securities subsidiaries and, within limits, compete in the securities industry. The Financial System Reform Act (the "Reform Act") in June of 1998, effective October 1999, made further substantial amendments to the Securities and Exchange Law, the Banking Law and related laws and abolished the provision in the Financial System Reform Law which had prohibited bank-owned securities subsidiaries from engaging in the securities business involving equity securities. In addition, as at April 1, 1999, some of the restrictions on the activities of a bank-owned securities subsidiary and its parent bank, so-called "fire wall restrictions" which were aimed at preventing such subsidiary's unfair use of its parent bank's business relationship with, and information of, its customers, were lifted or relaxed. The new "fire wall restrictions" include (i) a restriction preventing a bank-owned securities subsidiary from becoming a lead manager for the offering of corporate bonds where its parent bank is involved, (ii) prohibitions against joint visits to customers without disclosing the fact that a bank-owned securities company is an entity separate from its parent bank and (iii) the prohibition against the joint use of computer information processing systems by a bank-owned securities company and its parent bank.

SMBC, as well as SMFG which is a listed company, is required to file an annual "Securities Report" for each fiscal period with the Kanto Local Finance Bureau (authorised by the FSA). Such annual "Securities Reports" are supplemented by semi-annual and extraordinary reports, which must be prepared on a consolidated basis, pursuant to the Securities and Exchange Law.

Other Deregulation

In connection with the so-called Japanese "Big Bang" proposals announced in November 1996 by the then current prime minister of Japan, various proposals have been made by the government and other bodies for the further deregulation of the Japanese financial market and the improvement of the soundness of Japanese financial institutions. Recent deregulations include:

(i) Effective October 1999, city banks were allowed to issue straight senior bonds following the abolishment of Ministry of Finance's operational regulations, which had prohibited city banks from issuing such bonds. Also, effective as of June 30, 1997, ordinary banks are able to issue subordinated bonds.

(ii) Effective as of April 1, 1998, the restrictions were lifted on the maximum maturities of floating rate time deposits and on maturities of negotiable certificates of deposit.

(iii) Beginning in February 2002, the restrictions were relaxed on the business of trust banking subsidiaries and the trust business of banks so that banks and trust banking subsidiaries could engage in almost all aspects of the trust business except for brokerage/agency of sales/lease of real estate, certain other real estate-related businesses, estate administration and certain investment advisory businesses.

(iv) With the May 2000 amendment of the Insurance Business Law as from April 2001, banks became able to deal with several insurance products related to housing loans etc. as over-the-counter transactions. In addition, the scope of such over-the-counter transactions has been expanded to private pensions as of October 2002.

(v) From September 2002, banks and their securities subsidiaries were permitted to jointly use the same premises.

(vi) From December 2004, banks will be permitted to solicit customers for securities trades and intermediate the resulting trades for securities companies.

Bank Holding Company

While the Anti-Monopoly Law provision which prohibits a bank from holding more than 5 per cent. of another company's voting rights does not apply to a bank holding company which is, however, subject to general shareholding restrictions under the Anti-Monopoly Law, the Banking Law prohibits a bank holding company and its subsidiary, on aggregated basis, from holding more than 15 per cent. of the voting rights of certain types of companies which are not permitted to become subsidiaries of bank holding companies.

Prompt Corrective Action and Self-Assessment

Pursuant to amendments to the banking laws enacted in June 1996, the Prompt Corrective Action ("PCA") system has been effective as from April 1, 1998. Under such banking laws, as so amended, and regulations recently issued thereunder, the FSA may, depending upon the extent of the capital deterioration of a financial institution, take certain corrective actions such as requiring a financial institution to formulate and implement reform measures, or requiring it to reduce assets or take other specific actions or suspend all or part of its business operations. The PCA system also requires financial institutions to establish "self-assessment" programmes. Financial institutions, including SMBC, are required to analyse their assets giving due consideration to accounting principles and other applicable rules and to classify their assets into various categories taking into account the likelihood of repayment and the risk of impairment to the value of the assets. These classifications will determine whether an addition to or reduction in reserves or write-offs is necessary.

Based on the amendments to the banking laws referred to above, the Japan Institute of Certified Public Accountants issued new guidelines for the accounting practices for Japanese banks in April 1997. Pursuant to such guidelines based on the outcome of each financial institution's self-assessment, substantially all of a bank's loans and other claims on customers are to be analysed by classifying obligors into five categories: normal borrowers, borrowers requiring caution, potentially bankrupt borrowers, effectively bankrupt borrowers and bankrupt borrowers. The reserves for possible loan losses are then calculated based on such obligor categories. Also in 1997, in connection with the PCA system, the Ministry of Finance issued guidelines on the Ministry of Finance's examination of bank assets. Such guidelines require banks to classify their assets not only by the five categories of obligor described above but also by four categories of quality relevant assets. SMBC has adopted its own internal guidelines for self-assessment which conform to such guidelines currently in effect and comply with the requirements of the PCA system.

Under the PCA system, if the capital ratio of a bank or a bank holding company with international operations becomes less than 8 per cent. but not less than 4 per cent., the FSA may require such bank or a bank holding company to submit and implement a capital reform plan.

If the capital ratio of a bank with international operations declines to less than 4 per cent. but not less than 2 per cent., the FSA may order such bank to (i) submit and implement a plan for improving its capital; (ii) prohibit or restrict the payment of dividends to shareholders or bonuses to officers; (iii) reduce its assets or restrict the increase of its assets; (iv) prohibit or restrict the acceptance of deposits under terms less advantageous than ordinary terms; (v) reduce the business of some offices; (vi) eliminate some offices other than the head office or (vii) take certain other actions. If the capital ratio of a bank with international operations declines to less than 2 per cent. but not less than 0 per cent. the FSA may order such bank to conduct any one of the following: (i) an increase of its capital; (ii) a substantial reduction in its business; (iii) a merger; or (iv) abolishment of its banking business. If the capital ratio of a bank with international operations declines to less than 0 per cent., the FSA may order such bank to suspend all or part of its business.

If the capital ratio of a bank holding company that holds a bank with international operations declines to less than 4 per cent., the FSA may take actions similar to the foregoing.

Prompt Warning System

A prompt warning system was introduced on December 10, 2002 to enable the FSA to take precautionary measures to maintain and promote the sound operations of financial institutions even before those financial institutions become subject to the prompt corrective action system. These measures require a financial institution to reform: (i) profitability, if deemed necessary to improve profitability based upon a fundamental profit index; (ii) credit risk, if deemed necessary to reform management of credit risk based upon the degree of large credits' concentration and other situations, (iii) stability, if deemed necessary to reform management of market and other risks based upon the effect of securities price fluctuations and other fluctuations; and (iv) cash flow, if deemed necessary to reform management of liquidity risks based upon a deposit trend and level of reserve for liquidity.

Accounting Changes for Investment Securities and Financial Products

In January 1999, the Business Accounting Deliberation Council announced "Accounting Standards for Financial Instruments" which stipulated the scope of financial instruments, recognition and deletion of financial instruments, valuation methods, accounting for hedge transactions and accounting for composite financial instruments. It was incorporated into the corporate disclosure regulations under the Securities and Exchange Law that are applicable to public companies as a "generally fair and acceptable accounting rule". Under these standards, all the derivative financial instruments are basically valued at market value except for those qualifying as a hedge. Securities are classified into four categories: trading securities, held-to-maturity securities, investments in subsidiaries and affiliates and other securities. Trading securities shall be stated at market value and the unrealised gain or loss shall be recorded in the income statements. Held-to-maturity securities shall be stated at amortised cost. Investments in subsidiaries and affiliates shall be stated at cost. Other securities shall be stated at market value and the unrealised gain or loss shall be recorded as a separate component of stockholders' equity. These new accounting standards have been applied to SMBC since April 1, 2000, except the accounting standard with respect to other securities, which became effective as at April 1, 2001.

Accounting for the Impairment of Fixed Assets

On August 9, 2002, the Business Accounting Deliberation Council provided the opinion with respect to accounting for the impairment of fixed assets, including investment in real property (but excluding financial products and deferred tax assets etc.). According to the opinion, an extraordinary loss must be recognised if there are indications of impairment loss and the book value of the asset exceeds the expected aggregate undiscounted future cash flow from such asset. The amount to be recognised is the difference between the book value of the asset and the greater of: (i) the expected aggregate discounted cash flow from such asset; and (ii) the expected resale price for such asset. The opinion suggests that Japanese corporations will, at their option, be able to adopt this accounting method for the fiscal year ended March 31, 2004 and will be obliged to adopt it for all fiscal years commencing on or after April 1, 2005.

System for Resolving Failed Financial Institutions After April 2001

In order to construct a permanent system for resolving failed financial institutions after April 2001, the Amendment Bill of the Deposit Insurance Law, as described hereinafter, was enacted as at May 24, 2000. Prior to such legislation, the system under the Financial Function Early Strengthening Law, (which provided for capital injection by the Japanese government to financial institutions), and the Financial Reconstruction Law, (which set forth the treatment of the failed financial institutions) had been in effect. The capital injection under the Financial Function Early Strengthening Law is no longer available and has been replaced with the relevant provisions of the amended Deposit Insurance Law, except for cases in which application was made prior to March 31, 2001. The Financial Reconstruction Law's provisions for the treatment of failed financial institutions, including the nationalisation scheme and the Financial Reorganisation Administrator's operation scheme, have been replaced with new schemes by the relevant provisions of the amended Deposit Insurance Law.

Amended Deposit Insurance Law

(i) General framework of resolution procedure.

The basic method of resolution for a failed financial institution under the Deposit Insurance Law is cessation of the business by paying insurance money to the depositors up to the principal amount of ¥10 million plus accrued interest ("pay-off") per depositor or transfer of the business to another financial institution with financial aid provided within the cost of pay-off. Under the amended Deposit Insurance Law, transfer of business is regarded as the primary method. In order to effect a prompt transfer of business, the following framework has been introduced:

(1) The Financial Reorganisation Administrator will take control of the management and assets of a failed financial institution. Such administrator is expected to efficiently search for a financial institution which will succeed the business of such failed institution.

(2) In the case where no such successor financial institution can be immediately found, a "bridge bank" (a subsidiary of the DIC), will conduct the business of the failed bank for a certain period. As one of such bridge banks, the Japan Succession Bank was established and licenced by the FSA on March 19, 2002. On March 28, 2002, the Japan Succession Bank obtained the approval and order from the FSA with respect to its first succession of businesses from two failed financial institutions.

(3) In order to facilitate or encourage a financial institution to succeed a failed business, financial aid may be provided to the successor financial institution to enhance its capital after succession or to indemnify the loss incurred by such succession.

(ii) Addressing the possible financial crisis.

Where it is anticipated that the failure of a financial institution may cause an extremely grave problem in maintaining the financial function's order in the area where such financial institution is operating, the following exceptional measures may be taken after consulting with the Conference for Financial Crisis Countermeasures:

(1) The DIC may subscribe to the shares or other instruments issued by the relevant financial institution and require such institution to submit a plan to regain soundness in its management to the DIC.

(2) Once such financial institution fails, financial aid exceeding the cost for pay-off may be available to such institution.

(3) In the case where the failed institution is a bank and systemic risk cannot be avoided by the measure mentioned in (2) above, the DIC may acquire all of the shares of such bank.

In order to fund the above-mentioned activities, the DIC may make borrowings from financial institutions or issue bonds which may be guaranteed by the government.

(iii) Postponement of pay-off.

The temporary special measures to protect the full amount of time deposits (exceeding ¥10 million) were terminated at the end of March 2002. Pay-off commenced in April 2002.

The deposits with current, savings and sundry accounts will be fully protected until the end of March 2005. Non-interest bearing deposits that are redeemable upon demand and used by depositors primarily for payment and settlement functions will be protected in full even after March 2005.

As an example, in May 2003, Resona Holdings, the bank holding company for Resona Bank, a bank only with Japanese domestic operations, received orders from the FSA to submit and implement a plan for improving its capital based on the reason that the capital ratio of Resona Bank declined to less than 4 per cent. which is the minimum capital ratio standard for a bank only with Japanese domestic operations. On June 10, 2003, the FSA announced that Resona Bank had made an application for recapitalisation and submitted a plan to regain soundness in its management under the amended Deposit Insurance Law and that the FSA had decided to subscribe for the shares of Resona Bank (subsequently to be converted into shares of Resona Holdings) in an aggregated amount of ¥1.96 trillion (see "— Amended Deposit Insurance Law"). In November 2003, Ashikaga Bank, a major regional bank, announced its negative net worth status as at September 30, 2003 and the Japanese government placed it under temporary nationalisation.

Resolution and Collection Corporation

The RCC was established in April 2001 as a wholly owned subsidiary of the DIC by merging the Housing Loan Administration Corporation ("HLAC"), which had engaged in the management of mortgages assigned from the *jusen*, and the Resolution and Collection Bank, which had engaged in the collection of loan receivables assigned from failed financial institutions. The RCC can now purchase under-performing loan receivables from not only the failed financial institutions but also healthy ones to increase the credibility of the Japanese financial system. The RCC is also specialised in the purchase and collection of under-performing loan receivables, and therefore is expected to collect them swiftly to compensate and effectively. The DIC will provide guarantees to the RCC to finance such business and the RCC for losses it incurred.

Restriction on Bank's Stockholding, the Bank's Shareholdings Purchase Corporation and Direct Purchase by the Bank of Japan

Effective September 30, 2006, banks and certain of their qualified subsidiaries and affiliates, on an aggregate basis, will not be permitted to hold stocks in an amount exceeding their Tier I capital amount. Therefore, banks, including SMBC, will have to dispose of a considerable amount of stock, including cross-held stocks, by such date. In order to prevent a decline in stock prices resulting from the inflow of a large volume of such stocks into the market, the Bank's Shareholdings Purchase Corporation ("Stock Purchasing Agency") was established on January 30, 2002 with the contribution of more than ¥10 billion from 128 financial institutions. The Stock Purchasing Agency commenced its operations in mid-February, 2002. Primarily, the Stock Purchasing Agency intends to purchase stocks that can be readily resold to third parties based upon demand. These transactions are booked in its "General Account". Other transactions are booked in the "Special Account", to which the following special rules will apply: the Stock Purchasing Agency's Special Account operations will be funded through loans from private banks or issue of debentures, both of which are government guaranteed; the Stock Purchasing Agency may only buy stock of issuers with a credit rating of BBB– (from Standard and Poor's, or an equivalent rating assigned by a rating agency designated by the FSA and the Ministry of Finance) or higher for its Special Account. The purchase of stock by the Stock Purchasing Agency may be made until September 30, 2006. The Stock Purchasing Agency is scheduled to be liquidated by March 31, 2017.

In addition, in order to further facilitate the disposition of shares by banks holding large volume of shares, the Bank of Japan has commenced as at November 29, 2002 direct purchases of certain shares held by 15 large banks, including SMBC. Such shares should be, in principle, listed shares of companies with a long-term debt rating of BBB– (from Standard and Poor's, or an equivalent rating assigned by a rating agency designated by the Bank of Japan) or higher. The Bank of Japan is scheduled to continue direct purchases until the end of September 2003. If less than ¥3.0 trillion worth of shares has been purchased by the end of September 2003, then the deadline will be extended to the end of September 2004. The aggregate purchase amount will be up to ¥3 trillion. As of June 30, 2003, the Bank of Japan had purchased ¥1,486 billion worth of shares. As an additional condition, the Bank of Japan will only engage in direct purchases of shares where the selling bank's equity holding exceeds such bank's Tier I Capital. As at March 31, 2004 the market value of SMBC's equity portfolio was lower than SMBC's consolidated Tier I capital and as such, SMBC is not currently eligible for the direct purchase scheme. See "Recent Events — Recent Regulatory Developments — New Framework for Corporate Revival — Bank of Japan to Acquire Shares from Banks".

Certain Amendments to Commercial Code

In June 2001, the Commercial Code was amended to relax the restrictions on liquidation of statutory reserve (consisting of, among others, proceeds of issued shares not included in the capital amount). Before the amendment, such statutory reserve could only be liquidated to remedy the impaired capital, or only transferred to the capital amount. The amendment enabled a corporation to dissolve such statutory reserve in excess of one fourth of the amount of the capital (in the case of a bank, under the Banking Law, this amount is increased to the amount equal to the capital amount), subject to the shareholders' approval and the protective measures for the corporate creditors. The amount equal to the dissolved statutory reserve will be classified as a surplus and may be used in various ways, including for dividends. Such amendment took effect on October 1, 2001 and SMBC realised the benefit of this amendment by transferring ¥599 billion of its statutory reserve to retained earnings as of March 9, 2002.

Capital Adequacy

In 1988, the Basel Committee on Banking Supervision (the ''Committee''), comprised of representatives of the Group of Ten (''G-10'') countries (including Japan) and Luxembourg, issued the Basel Accord. The Basel Accord, which was endorsed by the G-10 Central Bank Governors, also established a risk asset ratio as the principal measure of capital adequacy. This ratio compares a bank's capital base, which is divided into two tiers, to its assets and off-balance sheet exposures adjusted according to broad categories of relative credit risk. The Basel Accord sets minimum international risk asset ratios, but national banking regulators are permitted to set additional ratios.

The capital adequacy guidelines currently supervised by the FSA and applicable to Japanese banks with international operations (the ''Guidelines'') closely follow the risk-adjusted approach proposed by the Committee and are intended to further strengthen the soundness and stability of Japanese banks. Under the risk-based capital framework of the Guidelines, balance sheet assets and off-balance sheet exposures are assessed according to broad categories of relative risk, based primarily on the credit risk of the counterparty, country transfer risk and the risk regarding the category of transactions. Five categories of risk weights (0 per cent., 10 per cent., 20 per cent., 50 per cent. and 100 per cent.) are applied to the different types of balance sheet assets. Off-balance sheet exposures are taken into account by applying different categories of ''credit conversion factors'' to arrive at credit-equivalent amounts, which are then adjusted in the same manner as balance sheet assets involving similar counterparties (except that the maximum risk weight is 50 per cent. for exposures relating to derivatives, such as foreign exchange and interest rate swap or option contracts). In June, the Committee published its revised guidelines with respect to minimum capital requirements, including the risk weight calculations, the inclusion of operational risk, and the introduction of the internal rating systems, the supervisory review and the market discipline through effective disclosure. The revised guidelines permit the usage of variable risk weights according to the credit rating given to the obligor of the risk assets. The better the credit rating of an obligor, the less the risk weight applicable to the risk assets owed by it would be. Also, the new guidelines require financial institutions to establish an internal risk management system, to make thorough disclosure of relevant information and to set an appropriate reserve against the operational risk based upon fair evaluation thereof. The new guidelines generally take effect from 2006. The new guidelines did not change the minimum capital adequacy ratio of 8 per cent. applicable to banks with international operations (including SMBC).

With regard to capital, the Guidelines are in accord with the standards of the Basel Accord for a target minimum standard risk-adjusted capital ratio of 8 per cent. (at least half of which must consist of core capital (Tier I), or a risk adjusted core capital ratio of 4 per cent.) on both a consolidated and non-consolidated basis. The Guidelines place considerable emphasis on tangible common stockholders' equity as the core element of the capital base, with appropriate recognition of other components of capital.

Capital is classified into three tiers, referred to as core capital (Tier I), supplementary capital (Tier II) and junior supplementary capital (Tier III). Core capital generally consists of stockholders' equity less any recorded goodwill and amortisation of consolidation difference. Supplementary capital generally consists of (i) general reserves for possible loan losses (subject to a limit of 1.25 per cent. of total risk-adjusted assets and off-balance sheet exposures), (ii) 45 per cent. of (a) the unrealised gains on investments in ''other securities'' (*i.e.*, securities that are not those held for trading purpose, held-to-maturity bonds or shares in subsidiaries or certain affiliates) and (b) the unrealised appreciation on land, (iii) the balance of subordinated perpetual debt and (iv) the balance of subordinated term debt with original maturity of over five years and limited life preferred equity (up to a maximum of 50 per cent. of core capital). Junior supplementary capital consists of the balance of subordinated term debt with original maturity of at least two years. Junior supplementary capital may be counted, subject to certain conditions, according to the amount of market risk or the amount of core capital.

Supplementary capital may be counted up to the amount equivalent to core capital (less junior supplementary in case market risk is counted in the capital ratio calculation).

If a Japanese financial institution, including a bank and a bank holding company, fails to maintain the required capital ratios, under the PCA system, the FSA may, depending upon the extent of capital deterioration of such institution, take certain corrective action such as requiring it to formulate and implement reform measures, or requiring it to reduce assets or take other specific actions or suspend all or part of its business operations.

From and after March 31, 1998, banks and bank holding companies are required to measure and apply capital charges in respect of their market risks in addition to their credit risks. Market risk is defined as the risk of losses in on- and off-balance-sheet positions arising from movements in market prices. The risks subject to this requirement are:

- The risks pertaining to interest rate related instruments and equities in the trading book; and
- Foreign exchange risk and commodities risk throughout the bank.

Additionally, following the FSA's Programme, the FSA announced in April 2003 that it required all major Japanese banks and bank holding companies to have internal controls relating to the calculation of capital adequacy ratios reviewed by external auditors as from the end of March 2003.

Public Money Injection and Rationalisation Plan

The Law Concerning Emergency Measures for Stabilisation of Financial Functions (Law No. 5 of 1998) and its successor, the Law Concerning Emergency Measures for Early Rehabilitation of Financial Functions (Law No. 143 of 1998, as amended) were enacted in February and October of 1998, respectively. The purpose of the laws was to prevent the failure of financial institutions by promoting prompt dispositions of bad debts and to provide measures for strengthening the capital structure of financial institutions. To achieve those targets, both laws provided that, in additional to its normal operations, the Resolution and Collection Bank (which has been merged into the RCC) could purchase preferred stock or subordinated debts issued by, or extend a subordinated loan to, financial institutions. Such actions are subject to governmental approval of a rationalisation plan submitted by each financial institution applying for such a public money injection. In the rationalisation plan, the financial institution sets forth specific remedial action to restructure its management. A report verifying the result of the undertakings pursuant to the rationalisation plan must be submitted to the supervisory authority semi-annually until such securities or loans have been fully redeemed or repaid. If there is considerable discrepancy between the rationalisation plan and actual performance, the FSA may take administrative action, including the imposition of a partial business suspension order under the Banking Law. To date, such public money injection to the financial institutions, including the former Sakura Bank and Sumitomo Bank have occurred twice, in March of 1998 and 1999.

On April 4, 2003, the FSA issued guidelines (which were amended on August 7, 2003) concerning conditions under which the Japanese government may convert preferred stock of banks or bank holding companies that it owns into common stock for the purposes of enhancing corporate governance of such banks or bank holding companies. Among the considerations under which it may do so under those guidelines is the non-payment of dividends on those preferred stocks for two consecutive years, or non-payment for one year only if followed by a partial payment of preferred dividends for the second year.

On June 14, 2004, the Strengthening Financial Functions Law was enacted in order to establish a new scheme of public money injection into financial institutions and thereby enhance soundness of such financial institutions and revitalise economic activities in the regions where they do business. The Strengthening Financial Functions Law broadens the range of financial institutions to which public money is available and facilitates preventive injection of public money into troubled financial institutions or financial institutions that are not yet troubled in order to avert the possibility of a financial crisis. The Strengthening Financial Functions Law is also different from the Special Measures Law Concerning Facilitation of Reorganisation by Financial Institutions, Etc. in that, under the Strengthening Financial Functions Law, financial institutions which are not planning corporate restructuring can apply for public funds and, in case of corporate restructuring, application can be made even if certain of the entities involved in the restructuring are in financial trouble. An application for public money injection under the Strengthening Financial Functions Law needs to be made by March 31, 2008.

Business Improvement Administration Order

On August 1, 2003, the FSA issued administrative orders against 15 banks and bank holding companies, that have received public funds and recorded net income substantially below their planned net income for the year ended March 31, 2003. The orders included measures requiring the submission, implementation and reporting on Business Improvement Plans and were designed to ensure that these banks would attain their targeted net income in their Revitalisation Plans for the year ended March 31, 2004. In August 2003, SMFG, submitted such a business improvement plan and has been reporting any progress on a quarterly basis since.

Law Concerning Sales, Etc. of Financial Products

As a result of the various above-mentioned deregulations, more financial products, including highly structured and complicated products, can now be more freely marketed to various types of customers. In response to this, the Law Concerning Sales Etc. of Financial Products was enacted in May 2000, taking effect as from

April 2001, to better protect customers from incurring unexpected damages as a result of purchasing such financial products. Under this law, sellers of financial products have the duty of explanation with respect to the "important matters" (i.e. the risk involved and its nature) of such products. If such sellers fail to do so, they will face strict liability regarding the resulting damages, with the decrease in the product's value refutably presumed to be the amount of damages.

Special Measures Law Concerning Facilitation of Reorganisation by Financial Institutions, Etc.

The Special Measures Law Concerning Facilitation of Reorganisation by Financial Institutions, Etc. came into force, in part, as at January 1, 2003, and in full, as at April 1, 2003. Under the law: (i) if a financial institution (e.g., a bank or bank holding company) prepares and submits to the relevant authority a plan to enhance the basis of its management by means of certain forms of reorganisation such as a statutory merger, statutory share transfer, statutory share exchange, statutory corporate split, business transfer, stock sale and purchase, commencement of profitable business and abandonment of unprofitable business, and if such plan is accredited by the relevant authority, the RCC may make a capital contribution to the financial institution; (ii) in the case of a merger or transfer of the entire business of a financial institution, for one year after such merger or business transfer, the maximum amount to be covered by the deposit insurance (see "— Deposit Insurance System") will be ¥10 million multiplied by the number of parties to the merger or business transfer; and (iii) a financial institution will be entitled to enjoy the benefit of certain simplified procedures for the forms of reorganisation described above. In June 2004, however, Article 2 of the Supplementary Provision to the Strengthening Financial Functions Law repealed the provisions on capital contributions described above in (i).

Law Concerning Identification, Etc. by Financial Institutions

To address money laundering and terrorism, the Law Concerning Identification, Etc. by Financial Institutions, Etc. of their Customers, Etc. came into force as at January 6, 2003. Under the law, when a financial institution enters into a transaction with a customer, such financial institution is required to identify the customer and prepare and keep records of the customer and the transaction as prescribed by ministerial order.

Examination and Reporting Applicable to Shareholders

By evaluating banks' systems of self-assessment, auditing their accounts and reviewing their compliance with laws and regulations, the FSA monitors the financial soundness of banks, including the status and performance of their control systems for business activities. The inspection of banks is performed pursuant to a Financial Examination Manual published by the FSA which emphasises the need for: (i) each bank's self-assessment rather than assessment based on the advice of the government authority; and (ii) risk management made by each bank instead of a mere assessment of its assets.

If necessary in order to secure the sound and appropriate operation of the business of a bank, the FSA may request reports or submission of materials from the bank and/or the bank holding company, or inspect the bank and/or the bank holding company, if relevant.

The amendments to the Banking Law, which include rules concerning entry into the banking business, became effective as at April 1, 2002. Under these amendments, a person who desires to hold 20 per cent. (in certain exceptional cases, 15 per cent.) or more of the voting rights of a bank is required to obtain advance approval of the Commissioner of the FSA. In addition, the FSA may request reports or submission of materials from, or inspect any principal shareholder who holds 20 per cent. (in certain exceptional cases, 15 per cent.) or more of the voting rights of a bank if necessary in order to secure the sound and appropriate operation of the business of such bank. Under limited circumstances, the FSA may order such principal shareholder to take such measures as the FSA deems necessary.

Furthermore, any person who becomes a holder of more than five per cent. of the voting rights of a bank holding company or bank must report its ownership of voting rights to the Director of the relevant local bureau within five business days. In addition, a similar report must be made in respect of any subsequent change of 1 per cent. or more in any previously reported holding or any change in material matters set out in reports previously filed, with some exceptions. If the description of such report is inappropriate in any material respect, the FSA may request reports or submission of materials from, or inspect such holder of the voting rights.

Other

Elsewhere in the world SMBC's operations are subject to regulation and control by local central banks and monetary authorities.

TAXATION

The comments below are of a general nature based on current law and practice in the relevant jurisdiction. They do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. They relate only to the position of persons who are the absolute beneficial owners of their Bonds and Coupons and may not apply to certain classes of persons such as dealers or certain professional investors. Any Bondholders who are in doubt as to their own tax position should consult their professional advisers.

United Kingdom

Persons in the United Kingdom paying interest to or receiving interest on behalf of another person may be required to provide certain information to the United Kingdom Inland Revenue regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries.

The EU has adopted a Directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that Member States will be required from a date not earlier than 1 July 2005 to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual in another Member State, except that Austria, Belgium and Luxembourg will instead impose a withholding system for a transitional period unless during such period they elect otherwise.

Bondholders within the charge to United Kingdom corporation tax will be subject to tax as income on all profits and gains arising from, and from fluctuations in the value of, the Bonds broadly in accordance with their statutory accounting treatment. Such Bondholders will generally be charged in each accounting period by reference to interest and any profit or loss which in accordance with such Bondholder's authorised accounting method, is applicable to that period. Fluctuations in value relating to foreign exchange gains and losses in respect of the Bonds will be brought into account as income.

A disposal of a Bond by a Bondholder who is not under the charge of United Kingdom corporation tax and who is resident or ordinarily resident for tax purposes in the United Kingdom or who carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Bond is attributable may give rise to a chargeable gain or allowable loss for the purposes of taxation of capital gains. In calculating any gain or loss on disposal of a Bond, sterling values are compared at acquisition and transfer. Accordingly, a taxable profit can arise even where the foreign currency amount received on a disposal is less than or the same as the amount paid for the Bond.

The Bonds will be regarded by the Inland Revenue as "variable rate securities". Accordingly, a transfer of a Bond by a holder who is not under the charge of United Kingdom corporation tax and who is resident or ordinarily resident in the United Kingdom or a holder who carries on a trade in the United Kingdom through a branch or agency to which the Bond is attributable, may give rise to a charge to tax on income in respect of interest on the Bond which has accrued since the preceding interest payment date in such an amount as the Inland Revenue deem just and reasonable under the provisions of the Accrued Income Scheme. A transferee of Bonds with accrued interest will not be entitled to any corresponding allowance under the Accrued Income Scheme.

Bondholders who are either individuals or trustees and are resident for tax purposes in the United Kingdom or who carry on a trade in the United Kingdom through a branch or agency to which the Bonds are attributable will generally be liable to United Kingdom tax on the amount of any interest received in respect of the Bonds.

No United Kingdom Stamp Duty or Stamp Duty Reserve Tax is payable on the issue or transfer by delivery of a Bond or on its redemption.

Japan

The following description of Japanese taxation (limited to national taxes) applies to interest and the difference between the issue price of the Bonds and the amount which the holder receives upon the redemption of such Bonds (the "issue differential") with respect to the Bonds issued by SMBC outside Japan and payable outside Japan as well as certain aspects of capital gains, inheritance and gift taxes. It is not intended to be exhaustive and Bondholders and/or Couponholder are recommended to consult their tax advisers as to their exact tax position.

Interest and issue differential

1 If the recipient of interest on the Bonds is a non-resident of Japan or a non-Japanese corporation with no permanent establishment within Japan or with a permanent establishment within Japan but where the receipt

of interest under the Bond is not attributable to the business carried on within Japan by the recipient through such permanent establishment, no Japanese income tax or corporate tax is payable with respect to such interest whether by way of withholding or otherwise, if such recipient complies with certain requirements, *inter alia*:

(a) if the relevant Bonds or Coupons are held through a certain participant in an international clearing organisation such as Euroclear and Clearstream, Luxembourg or a certain financial intermediary prescribed by the Special Taxation Measures Law of Japan (Law No. 26 of 1957) (as amended) (the ''Special Taxation Measures Law'') and the relevant cabinet order thereunder (together with the ministerial ordinance and other regulation thereunder, the ''Law'') (each, a ''Participant''), the requirement to provide certain information prescribed by the Law to enable the Participant to establish that the recipient is exempt from the requirement for Japanese tax to be withheld or deducted (the ''Exemption Information''); and

(b) if the relevant Bonds or Coupons are not held by a Participant, the requirement to submit to the relevant Paying Agent a claim for exemption from withholding tax (*Hikazei Tekiyo Shinkokusho*) (the ''Claim for Exemption''), together with certain documentary evidence.

Failure to comply with the requirements described above will result in the withholding by SMBC of income tax at the rate of 15 per cent., unless any lower rate is applicable under the relevant tax treaty between Japan and another country. Japan has income treaties, conventions or agreements whereby the above-mentioned withholding tax rate is reduced, generally to 10 per cent. with, *inter alia*, Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States of America. In order to avail themselves of such reduced rate of withholding tax, non-residents of Japan or non-Japanese corporations who are entitled to a reduced rate of Japanese withholding tax on payment of interest by SMBC are required to submit an Application Form for Income Tax Convention regarding Relief from Japanese Income Tax on Interest in advance through SMBC to the relevant tax authority before payment of interest.

If the recipient of interest on the Bonds is a Japanese bank, Japanese insurance company, Japanese securities company or other Japanese financial institution falling under certain categories prescribed by the relevant Cabinet Order under Article 6, Paragraph 8 of the Special Taxation Measures Law (each a ''Designated Financial Institution'') and such recipient complies with the requirement, *inter alia*, to provide the Exemption Information or to submit the Claim for Exemption, as the case may be, no income tax will be imposed, either by way of withholding or otherwise, but the recipient will be subject to regular corporate tax with respect to such interest.

2 If the recipient of interest on the Bonds is a non-resident of Japan or a non-Japanese corporation with a permanent establishment within Japan and the receipt of interest is attributable to the business of such non-resident or non-Japanese corporation carried on within Japan through such permanent establishment, such interest will not be subject to a 15 per cent. withholding tax by SMBC provided that the recipient complies with the requirement, *inter-alia*, to provide the Exemption Information or to submit the Claim for Exemption as set out in paragraph 1 above. Failure to do so may result in the withholding by SMBC of income tax at the rate of 15 per cent. The amount of such interest will then be aggregated with the recipient's other Japanese source income which is subject to Japanese taxation and will be subject to regular income tax or corporate tax, as appropriate.

3 If any recipient of interest on the Bonds who is a resident of Japan or a Japanese corporation (other than Japanese banks, Japanese insurance companies, Japanese securities companies or other Japanese financial institutions falling under certain categories prescribed by the relevant Cabinet Order under Article 3-3, Paragraph 6 of the Special Taxation Measures Law (each a ''Specified Financial Institution'') or Japanese public corporations (a ''Public Corporation'') designated by the relevant law who comply with the requirement as referred to in the next paragraph) receives payment of interest through certain Japanese payment handling agents (each, a ''Japanese Payment Handling Agent''), income tax at the rate of 15 per cent. will be withheld by the Japanese Payment Handling Agent rather than SMBC. As SMBC is not in a position to know in advance the recipient's status, the recipient of interest falling within this category should inform SMBC through a Paying Agent of its status in a timely manner. Individual Noteholders or Couponholders being residents of Japan who receive interest under the Bonds through a Japanese Payment Handling Agent will be taxed in Japan on such interest separately from his/her other income and only by way of withholding of the foregoing withholding tax, as far as the national level income taxes are concerned. In the case of other recipients who are individual residents of Japan (other than those referred to in the immediately preceding sentence) or Japanese corporations referred to in the beginning of this paragraph, the

amount of interest received by any such recipient will be included in such recipient's gross income and subject to normal income tax or corporate tax, as appropriate.

If the recipient of interest on the Bonds is a Public Corporation or a Specified Financial Institution that keeps its Bonds deposited with, and receives the interests through, a Japanese Payment Handling Agent with custody of the Bonds (the "Japanese Custodian") and such recipient submits through the Japanese Custodian, to the competent tax authority, the report prescribed by the Law, no income tax will be levied by way of withholding or otherwise on such portion of interest as is prescribed by the relevant Cabinet Order as that which is corresponding to the period the Bonds were held by such recipient. However, since SMBC is not in a position to know in advance the recipient's tax exemption status, the recipient of interest falling within this category should inform SMBC through a Paying Agent of its status in a timely manner. Failure to so notify SMBC may result in the withholding by SMBC of 15 per cent. income tax. Any amount of interest received by such Public Corporation or Specified Financial Institution in excess of the non-taxable portion described above is subject to a 15 per cent. income tax to be withheld by the Japanese Custodian.

If the recipient of interest who is a resident of Japan or a Japanese corporation receives interest not through a Japanese Payment Handling Agent, income tax at the rate of 15 per cent. will be withheld by SMBC.

4 If the recipient of the issue differential of the Bonds is a resident of Japan or a Japanese corporation, such issue differential will not be subject to any withholding tax but will be included in the recipient's gross income and subject to normal income tax or corporate tax as appropriate.

If the recipient of the issue differential of the Bonds is a non-resident of Japan or a non-Japanese corporation having no permanent establishment within Japan or having a permanent establishment within Japan but the receipt of such issue differential is not attributable to the business carried on within Japan by such non-resident or non-Japanese corporation through such permanent establishment, no income tax or corporate tax is payable with respect to such issue differential. If the receipt of such issue differential is attributable to the business of any such non-resident or non-Japanese corporation carried on within Japan through a permanent establishment maintained by it within Japan, such issue differential will not be subject to any withholding tax but will be included in the recipient's other Japanese source income which is subject to Japanese taxation and subject to normal income tax or corporate tax, as appropriate.

Capital gains, inheritance, gift, stamp and certain other taxes

Gains derived from the sale of the Bonds by a non-resident of Japan or a non-Japanese corporation not having a permanent establishment in Japan are in general not subject to Japanese income or corporate tax.

Japanese inheritance or gift tax at progressive rates may be payable by an individual, wherever resident, who has acquired the Bonds as legatee, heir or donee.

No stamp, issue, registration or similar taxes or duties will, under present Japanese law, be payable by Bondholders in connection with the issue of the Bonds.

SUBSCRIPTION AND SALE

Pursuant to a Subscription Agreement dated July 21, 2004 (the "Subscription Agreement"), Goldman Sachs International, UBS Limited, Daiwa Securities SMBC Europe Limited, Morgan Stanley & Co. International Limited, Deutsche Bank AG London and J.P. Morgan Securities Ltd. (the "Managers") have agreed, severally, but not jointly, with SMBC, subject to the satisfaction of certain conditions, to subscribe the Bonds at 99.577 per cent. of their nominal amount as set forth below:

Name of Manager	Nominal Amount of Bonds (€)
Goldman Sachs International	437,500,000
UBS Limited	412,500,000
Daiwa Securities SMBC Europe Limited	187,500,000
Morgan Stanley & Co. International Limited	150,000,000
Deutsche Bank AG London	37,500,000
J.P. Morgan Securities Ltd.	25,000,000
Total	1,250,000,000

SMBC has agreed to pay to the Managers a commission of 0.45 per cent. of the nominal amount of the Bonds. The Managers are entitled to be released and discharged from their obligations under the Subscription Agreement or to terminate the Subscription Agreement in certain circumstances prior to payment being made to SMBC as set out therein in the event of which the issue may be cancelled at any time until the document of title is issued and the listing of the Bonds may not become effective. SMBC has agreed to indemnify the Managers against certain liabilities in connection with the offering of the Bonds.

The Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act ("Regulation S").

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Bonds, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (as defined in the Subscription Agreement) within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering of the Bonds, an offer or sale of Bonds within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

Each Manager has represented, warranted and agreed that (i) it has not offered or sold and will not offer or sell any Bonds to persons in the United Kingdom prior to admission of the Bonds to listing in accordance with Part VI of the FSMA, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 or the FSMA, (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the FSMA would not, if SMBC was not an authorised person, apply to SMBC and (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

The Bonds have not been and will not be registered under the Securities and Exchange Law of Japan (Law No. 25 of 1948) (as amended) (the "Securities and Exchange Law") and will be subject to the Special Taxation Measures Law of Japan (Law No. 26 of 1957) (as amended) (the "Special Taxation Measures Law"). Accordingly, each of the Managers has represented and agreed that (i) it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the benefit of, any person resident in Japan (which term as used in this item (i) means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan and (ii) it has not, directly or indirectly, offered or sold and will not, (a) as part of its distribution at any time and (b) otherwise until forty days after the date of issue of the Bonds, directly or indirectly, offer or sell Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used in this item (ii) means any person resident in Japan, including any corporation or other entity organised under the laws of Japan but excluding certain financial institutions defined in Article 6, paragraph 8 of the Special Taxation Measures Law and any other excluded category of persons, corporations or other entities under the Special Taxation Measures Law) or to others for re-offering or re-sale, directly or indirectly, in Japan or to a resident of Japan, so as to satisfy the requirements for the tax exemption as provided for in Article 6 of the Special Taxation Measures Law and any other applicable laws, regulations and ministerial guidelines of Japan.

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds may not be circulated or distributed, nor may the Bonds be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor or other person specified in Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a sophisticated investor, and in accordance with the conditions, specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Each Manager has represented and agreed that the Bonds may not be offered, sold, transferred or delivered in the Netherlands as part of the initial distribution or at any time thereafter and neither the Offering Circular nor any other documents in respect of the offering may be distributed in the Netherlands other than to persons who trade or invest in securities in the conduct of their profession or trade (which includes banks, securities intermediaries (including dealers and brokers), collective investment institutions, insurance companies, pension funds, other institutional investors and commercial enterprises which as an ancillary activity regularly invest in securities), and the offer and each announcement of the offer state that the offer is exclusively made to persons who trade or invest in securities in the conduct of their profession or trade.

The offering of the Bonds has not been cleared by Commissione Nazionale per le Società e la Borsa ("CONSOB") pursuant to Italian securities legislation. Accordingly, the Managers have represented and agreed not to offer, sell or deliver the Bonds or distribute copies of the Offering Circular or of any other document relating to the Bonds in the Republic of Italy ("Italy"), or carry out any other marketing or solicitation activity in relation to the Bonds in Italy, unless the relevant activity is directed at professional investors (operatori qualificati), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of July 1, 1998, as amended. Moreover and subject to the foregoing, the Managers have represented and agreed that any offering, marketing, solicitation, delivering or selling activity in relation to the Bonds or any distribution of copies of the Offering Circular or any other document relating to the Bonds in Italy under the paragraph above shall be:

(a) made by an investment firm, bank or other intermediary authorised pursuant to Italian securities laws and regulations; and

(b) effected in accordance with all relevant Italian securities, tax and exchange controls and any other applicable laws and regulations, including, without limitation, the requirement to notify the Bank of Italy of the offer of the Bonds in Italy pursuant to Article 129 of Legislative Decree No. 385 of September 1, 1993, if applicable.

No action has been or will be taken in any jurisdiction by the Managers or SMBC that would permit a public offering of the Bonds, or possession or distribution of this Offering Circular (in preliminary or final form) or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required. Each Manager will comply with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Bonds or has in its possession or distributes this Offering Circular (in preliminary or final form) or any such other material, in all cases at its own expense. It will also ensure that no obligations are imposed on SMBC or any other Manager in any such jurisdiction as a result of any of the foregoing actions. SMBC and the other Managers will have no responsibility for, and each Manager will obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery. No Manager is authorised to make any representation or use any information in connection with the issue, subscription and sale of the Bonds other than as contained in this Offering Circular (in final form) or any amendment or supplement to it.

GENERAL INFORMATION

1. The Bonds have been accepted for clearance through the Clearstream, Luxembourg and Euroclear systems with a Common Code of 019715337. The International Securities Identification Number (ISIN) for the Bonds is XS0197153371.

2. The listing of the Bonds on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). It is expected that listing of the Bonds on the Official List and admission of the Bonds to trading on the London Stock Exchange's market for listed securities will be granted on or before July 26, 2004. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for settlement in Euros and for delivery on the third working day after the day of the transaction. The EU Transparency Obligations Directive is currently being finalised and will be implemented in the United Kingdom, and may be implemented in a manner which is unduly burdensome for SMBC. In particular, they may be implemented so as to require the publication of financial statements in the European Union prepared in accordance with, or reconciled to, International Financial Reporting Standards. In such circumstances, SMBC may decide, pursuant to the provisions of the Trust Deed and the Subscription Agreement, to delist the Bonds from the London Stock Exchange and seek an alternative listing for the Bonds on another stock exchange.

3. SMBC has obtained all necessary consents, approvals and authorisations in Japan in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by resolution of the Board of Directors of SMBC passed on June 29, 2004.

4. Except as disclosed in this document there has been no significant change in the financial or trading position of SMBC or of the SMBC Group since 31 March, 2004 (being the date to which the most recent audited or unaudited financial information has been published) and no material adverse change in the financial position or prospects of SMBC or of the SMBC Group since March 31, 2004.

5. Neither SMBC nor any of its subsidiaries is involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which SMBC is aware) which may have, or have had during the 12 months preceding the date of this document, a significant effect on the financial position of the SMBC Group.

6. The Bonds will bear the following legends:

   "Interest payments on this Bond will be subject to Japanese withholding tax unless the holder establishes that this Bond is held by or for the account of a holder that is not an individual resident of Japan or a Japanese corporation for Japanese tax purposes or is a designated Japanese financial institution described in Article 6 of the Special Taxation Measures Law of Japan.

   Interest payments on this Bond to an individual resident of Japan or a Japanese corporation not described in the preceding paragraph will be subject to deduction of Japanese income tax at a rate of 15 per cent. of the amount specified in subparagraph (A) or (B) below, as applicable:

   (A) if interest is paid to an individual resident of Japan or to a Japanese corporation (except as provided in subparagraph (B) below), the amount of such interest; and

   (B) if interest is paid to a public corporation, a financial institution or a securities company through a Japanese payment handling agent as provided in Article 3-3, Paragraph 6 of the Special Taxation Measures Law of Japan, the amount of such interest minus the amount provided in the Cabinet Order relating to said Paragraph 6."

7. Copies of the latest annual report of SMFG, which includes consolidated accounts of SMBC may be obtained, and copies of the Trust Deed and Agency Agreement will be available for inspection, at the specified offices of the Principal Paying Agent during normal business hours, so long as any of the Bonds is outstanding.

8. KPMG AZSA & Co., independent auditors, have audited, and rendered unqualified audit reports on, the accounts of SMBC respectively for the years ended March 31, 2002, March 31, 2003, and March 31, 2004 and have given and have not withdrawn their consent to the issue of this document with the inclusion in it of their reports in the form and context in which they are respectively it is included and have authorised the report for the purposes of Article 6(1)(e) of the Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001.

9. Copies (and certified English translations where the documents in question are not in English) of the following documents may be inspected at the offices of Linklaters, One Silk Street, London EC2Y 8HQ during usual business hours on any weekday (Saturdays and public holidays excepted) for 14 days from the date of this document:

   (a) the Articles of Incorporation and the Regulations of the Board of Directors of SMBC;

   (b) the audited consolidated annual accounts of SMBC for the three years ended March 31, 2004;

   (c) the Subscription Agreement referred to above;

   (d) drafts (subject to modification) of the Trust Deed to constitute the Bonds and the form of the Certificates; and

   (e) a draft (subject to modification) of the Agency Agreement.

NOTE REGARDING FINANCIAL INFORMATION

On February 3, 2003, Japan Research Institute, Sumitomo Mitsui Card and SMBC Leasing became wholly owned subsidiaries of SMFG, at the same time, Daiwa Securities SMBC and Daiwa SB Investments became directly invested companies of SMFG. The financial results of these entities were consolidated with the financial results of the Former-SMBC for the year ended March 31, 2002. Operating results and cash flows of these entities for the year ended March 31, 2003 were consolidated with the consolidated statement of operations and consolidated statement of cash flows of SMBC for the year ended March 31, 2003. The financial position of these entities as at March 31, 2003 were not consolidated with the consolidated balance sheet of SMBC as at March 31, 2003 but were consolidated with the consolidated balance sheet of SMFG as at March 31, 2003. Japanese GAAP does not require a restatement of prior years' financial statements in these circumstances and no such restatement is presented in this Offering Circular.

On March 17, 2003 the Former-SMBC merged with Wakashio Bank. Wakashio Bank was the surviving entity. On January 17, 2003, Wakashio Bank became a subsidiary of SMFG in preparation for the merger. Prior to that date, Wakashio Bank had been a subsidiary of the Former-SMBC.

In this Offering Circular, financial information presented for the year ended March 31, 2002 represents that of the Former-SMBC (which, at the time, included Wakashio Bank as a subsidiary of the Former-SMBC), while the financial information presented for the year ended March 31, 2003 represents that of SMBC. Unless otherwise stated, all information in this Offering Circular is presented on a consolidated basis. The non-consolidated statement of income for the year ended March 31, 2003 does not include the profits and losses for the Former-SMBC from April 1, 2002 to March 16, 2003.

SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN JAPANESE GAAP AND U.S. GAAP

The consolidated financial statements of SMBC and its subsidiaries presented in this offering circular conform with Japanese GAAP. Such principles vary from U.S. GAAP and significant differences between Japanese GAAP and U.S. GAAP are summarised below. These differences are not necessarily the only differences and other differences may exist:

Japanese GAAP

Consolidated Subsidiaries

The consolidated financial statements include all enterprises that are controlled by the parent, irrespective of the percentage of the voting shares owned.

Control is defined as the power to govern the decision making body of an enterprise.

U.S. GAAP

Consolidated Subsidiaries

Statement of Financial Accounting Standards (''SFAS'') No. 94 requires a parent company to consolidate all of its majority-owned subsidiaries with more than 50 per cent. of outstanding voting shares, subject to certain exceptions related to temporary control or the parent company's inability to exercise control over the subsidiary.

As for consolidation of a special purpose entity, SFAS 140 prescribes the definition of qualifying special purpose entity (''QSPE'') that is to be excluded from consolidation by transferor.

To prescribe the consolidation of a special purpose entity other than QSPE, in January 2003, The Financial Accounting Standards Board (FASB) issued Interpretation No. 46, ''Consolidation of Variable Interest Entities'', which applies immediately to variable interest entities created after January 31, 2003 and in the first fiscal year or interim period beginning after June 15, 2003 to older entities. An entity is considered a variable interest entity that is subject to consolidation under the Interpretation if the entity's total equity at risk is insufficient to permit the entity to finance its activities without additional subordinated financial support or if equity investors lack one or three characteristics of a controlling financial interest.

Japanese GAAP

Equity Method of Accounting

Affiliates are enterprises over which SMBC has material influence with respect to their financial and operating policies.

Investments in non-consolidated subsidiaries or affiliates are accounted for by the equity method in the consolidated financial statements.

U.S. GAAP

Equity Method of Accounting

Investments representing ownership of 20 per cent. to 50 per cent. of the outstanding voting shares are accounted for by the equity method. In addition, investments representing ownership of less than 20 per cent. are accounted for by the equity method if the investor has the ability to exercise significant influence over the entity in which it invests.

Japanese GAAP

Business Combinations

Accounting treatment that is similar to the pooling-of-interest method is normally used for business combinations in accordance with the Commercial Code of Japan. Under the accounting treatment, the balance sheet items of the acquired company are combined with those of the acquiring company at their carrying amount or fair value.

The Accounting Standards Board of Japan published

U.S. GAAP

Business Combinations

SFAS No. 141, Accounting for Business Combinations, prescribes the purchase method for all business combinations. The purchase method requires the valuation of the acquired assets and liabilities based on fair market values at the time of combination. The difference between the fair market values of the net assets and the consideration given represents goodwill.

"Opinion Concerning Establishment of Accounting Standard for Business Combination" in October 2003. According to the opinion, from the fiscal year starting April 1, 2006, new accounting standard is required to be applied. Under the new accounting standard, purchase method is the basic method. Pooling of interests method is applied only to exceptionally limited circumstances when strict criteria are met.

Securities

Debt securities that SMBC has the intent and ability to hold to maturity (held-to-maturity securities) are carried at amortised cost. Trading securities are carried at market value with gains or losses included in the current period income. Other securities (available-for-sale securities) are carried at fair value with unrealised gains or losses recorded directly to equity, net of taxes.

Securities

Investments in marketable equity and all debt securities are classified at acquisition according to management's intent, into one of the following categories: trading, available-for-sale, or held-to-maturity. Trading securities are marked to fair value, with the resulting unrealised gain or loss recognised in income. Available-for-sale securities should be marked to fair value, with the resulting unrealised gain or loss recorded in other comprehensive income. Held-to-maturity securities are carried at amortised cost. Other than temporary declines in value are charged to earnings when incurred.

Accounting for Derivatives and Hedging Activities

Derivative instruments are carried at fair value with changes included in the current period income unless certain hedge accounting criteria are met. In general, if derivative instruments are used as hedges and meet certain hedging criteria, a company defers recognition of gains or losses resulting from changes in fair value of derivative instruments as either an asset or liability until the related losses or gains on the hedged items are recognised. As a result of assessing and measuring effectiveness of hedges, changes in fair values of ineffective portion of derivatives can be deferred if only the total portion is recognised as effective.

As for fair value hedge accounting to hedging transactions for reducing the exposure to market volatility of bonds classified as other securities, a company can select either of following treatment.

1) A company defers recognition of gains or losses resulting from changes in fair value of derivative instruments as either an asset or liability until the related losses or gains on the hedged items are recognised.

2) A company recognises gains or losses resulting from changes in fair value of derivative instruments in earnings in the period of change together with the offsetting fair value loss or gain on the hedged item.

A bank was permitted to adopt "Macro Hedge Accounting" as hedge accounting method, under which the bank manages the total interest rate risk arising from various financial assets and liabilities as

Accounting for Derivatives and Hedging Activities

SFAS 133, Accounting for Derivative Instruments and Hedging Activities requires the recognition of all derivatives as assets or liabilities in the balance sheet measured at fair value. Changes in the fair values of derivatives are included in earnings unless the derivative qualifies for hedge accounting criteria. As a result of assessing and measuring effectiveness of hedges, changes in fair values of ineffective portion of derivatives are included in earnings and to be disclosed. The changes in the fair value of derivatives qualifying for hedge accounting criteria depends on the intended use.

- For derivatives designated as hedging the exposure to changes in the fair value of an asset or liability or a firm commitment, the gain or loss is recognised in earnings in the period of change together with the offsetting fair value loss or gain on the hedged item.
- For derivatives designated as hedging the exposure to variable cash flows of a forecasted transaction, the effective portion of the derivative's gain or loss is initially reported as a component of other comprehensive income. Gains and losses of cash flow hedges included in other comprehensive income are reclassified into earnings in the same period or periods during which the related asset or liability affects earnings.
- For derivatives designated as hedging the foreign currency exposure of a net investment in a foreign operation, the gain or loss is reported in other comprehensive income as part of the cumulative

a whole by using financial derivative transactions. The treatment was temporarily permitted until fiscal year starting April 1, 2002.

From the fiscal year starting April 1, 2003, Japanese banks are required to apply the basic provision of JICPA Industry Audit Committee Report No. 24 to hedges on groups of large-volume, small-value monetary and debts with similar risk characteristics.

translation adjustment.

SFAS 133 was partially amended by SFAS 138 and SFAS 149.

Accounting for Sales of Loans with Recourse

Certain loan participations which meet specified criteria are allowed to be accounted for as sales, even though the loans are not legally isolated from the transferor.

Accounting for Sales of Loans with Recourse

Under U.S. GAAP, pursuant to SFAS 140, financial assets are generally recorded as sold and removed from the balance sheet only when the following conditions have been met: legal title has passed; the financial assets are beyond the reach of the transferor's creditors, even in bankruptcy or receivership; the purchaser obtains the asset free of conditions that constrain it from taking advantage of the right to pledge or sell the asset; and the transferor does not maintain effective control over the assets as defined. Sales that are not free of such constraints are recorded as a financing. A transfer of assets qualifying as a sale under U.S. GAAP but in connection with which the seller has assumed a limited recourse obligation would result in the recording of a liability for the estimated recourse.

Restructured Loans

Discounted present value had not been historically used to measure impairment of a loan. Reserves for restructured loans were computed based on historical loss experience.

From the fiscal year ended at March 31, 2003, pursuant to ''Audit considerations with respect to the discounted cash flow method used to determine allowance for credit losses by banks and other financial institutions'' (issued by JICPA on February 24, 2003), major banks are required to provide reserves for possible loan losses using the Discounted Cash Flows method as follows for loans to large borrowers classified as ''Past due loans (3 months or more)'' or ''Restructured loans'':

(a) A bank rationally estimates the cash flows of principal and interest, and measures their present values by discounting the cash flows using the initial contractual interest rate.

(b) A bank recognises the difference between the present value and its book value as estimated losses and provides reserve for possible loan losses.

Restructured Loans

SFAS No. 114 requires that impairment of a loan, including a troubled debt restructuring, be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as practicably expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral-dependent.

Accrued Interest on Non-Performing Loans

SMBC places into the non-accrual loans which management assesses as ''Bankrupt'', ''Effectively Bankrupt'' or ''Potentially Bankrupt''. Accrued interest related to such loans is written-off.

Accrued Interest on Non-Performing Loans

Loans are placed on non-accrual status when they are deemed uncollectible based on management's assessment. Accrued interest related to such loans is reversed against interest income.

	Income is generally recognised on such loans using either a cost-recovery method, cash-basis method or some combination of those methods.
Impairment of Long-Lived Assets	**Impairment of Long-Lived Assets**
In August 2002, the Business Accounting Deliberation Council issued "Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets." The opinion requires that an impairment loss be recognised only if there are indications of impairment loss and the carrying amount of a fixed asset is lower than its aggregate undiscounted future cash flows. The amount of impairment loss to be recognised is the difference between the carrying amount of fixed asset and the greater of: (i) the aggregate discounted future cash flows (ii) the expected resale price of the fixed assets. The impairment loss shall be included in the current period income. This new accounting standard becomes effective for fiscal years beginning after March 31, 2005. Earlier adoption is permitted for the fiscal year ended March 31, 2004.	SFAS No. 144 requires that an impairment loss be recognised only if the carrying amount of a long-lived asset is not recoverable from its undiscounted future cash flows and be measured as the difference between the carrying amount and fair value of the long-lived assets. The impairment loss shall be included in the current period income.
Goodwill	**Goodwill**
Goodwill that is the excess of investment cost over the parent's share of the underlying equity in net assets of the subsidiary at the date of acquisition and that is created in consolidation procedures shall be amortised within 20 years. According to the "Opinion Concerning Establishment of Accounting Standard for Business Combination" issued in October 2003, goodwill is strictly amortised within 20 years using a systematic method, with impairment test in addition.	Under SFAS No. 142, goodwill is not amortised but tested at least annually for impairment.
Employee Pension and Post-Retirement Benefits	**Employee Pension and Post-Retirement Benefits**
Reserve for employee retirement benefit is recorded based on an actuarial computation, which uses the present value of the projected benefit obligation and pension assets, based on an employee's credited years of services at the balance sheet date. Contributions are changed to the income statement as a decrease in pension costs when paid. All unrecognised actuarial gains/losses are strictly subject to amortisation. There is no requirement of additional minimum liability under Japanese GAAP.	U.S. GAAP generally requires the use of actuarial methods for measuring annual employee benefit costs including the use of assumptions as to the rate of salary progression and discount rate, the amortisation of prior service costs over the remaining service period of active employees and the immediate recognition of a liability when the accumulated benefit obligation exceeds the fair market value of plan assets. Unrecognised actuarial gains/losses that are equal to the greater of 10% of the present value of benefit obligation (PBO) and 10% of the fair value (market related value) of plan assets, do not need to be amortised (corridor amortisation). Liability that is at least equal to unfunded accumulated benefit obligation is recognised as additional minimum liability.

Accounting for the transfer of the Substitutional Portion of Employee Pension Fund Liabilities

In general, accounting for any gain on transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities is recognised when the obligation is settled and actually transferred. As an alternative, the gain on the return of the entrusted portion of the employee pension fund is allowed if the transfer is resolved by board of delegates and there are plan assets equivalent to the amount that should be transferred to the Japanese Government. This treatment is allowed within 30 months from June 15, 2001.

Accounting for the transfer of the Substitutional Portion of Employee Pension Fund Liabilities

In accordance with Emerging Issues Task Force Issue No. 03-02 "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities", the entire separation process and transfer will be accounted for at the time the transfer of the benefit obligation and related plan assets is completed. The ultimate determination of any gain or loss will be made as of the date the transfer has been completed in accordance with Statement of Financial Accounting Standards No. 88 "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits".

Earned Surplus Reserve

Under the Banking Law of Japan, an amount equivalent to at least 20 per cent. of cash disbursements paid was appropriated and was set aside as earned surplus reserve in the retained earnings.

Effective October 1, 2001, such earned surplus reserve is recorded until total of both earned surplus reserve and capital surplus equals the amount of common stock. The excess of the total amount over the amount of common stock may be transferred to retained earnings by resolution of stockholders.

Earned Surplus Reserve

Such earned surplus reserve is not provided for under U.S. GAAP.

Land Revaluation Excess

Land which had been recorded at acquired cost was allowed to be revalued at fair value at one time during a fiscal year from March 31, 1998 to March 31, 2002. The resulting gains were recorded in land revaluation excess as a separate component in the stockholders' equity, net of tax.

The land shall not be revaluated after the initial revaluation even if the fair value declined.

Land Revaluation Excess

Such land revaluation excess is not permissible.

Guarantees

Notional amounts of guarantees, including standby letters of credit and the related reimbursement obligations of customers, are presented on the balance sheet with assets of equal amounts.

Guarantees

In November 2002, the Financial Accounting Board (FASB) issued interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", which, among other provisions, applies to guarantees issued or modified after December 31, 2002. The issuer of a guarantee is required to recognise, at the inception of the guarantee, an initial liability for fair value of its obligations under the guarantee basically. The above-mentioned treatment is required for letters, such as financial standby letters of credit and contracts that contingently require the guarantor to make payments to the guaranteed party.

Loan Fees	**Loan Fees**
Loan origination fees and costs are recognised when income is received and costs are incurred.	Loan origination fees are deferred and recognised over the life of the related loan as an adjustment of yield based on the effective interest method. Certain direct loan origination costs are also deferred and recognised over the life of the related loan as a reduction of the loan's yield based on the effective interest method.
Directors' Bonuses	**Directors' Bonuses**
Directors' bonuses are charged directly to retained earnings by resolution of shareholders.	Directors' compensation is expensed on an accrual basis as earned.
Leases	**Leases**
Unless transfer of ownership occurs, financing leases may be accounted for as operating leases accompanied with sufficient footnote disclosure.	Leases are classified as either capital lease or operating lease, based on specified criteria. A lease which transfers substantially all of the benefits and risks of ownership to the lessee is reported as a capital lease. Other leases are accounted for as operating leases.
Comprehensive Income	**Comprehensive Income**
There are no specific accounting principles for reporting comprehensive income.	U.S. GAAP requires that all items that are required to be recognised under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. Comprehensive income includes all changes in shareholders' equity during an accounting period except those resulting from investments by or distributions to owners, including certain items not included in the current results of operations.

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INDEX TO THE FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Sumitomo Mitsui Banking Corporation

We have audited the accompanying consolidated balance sheet of Sumitomo Mitsui Banking Corporation ("SMBC") and subsidiaries as of March 31, 2004, and the related consolidated statement of income, stockholders' equity and cash flows for the year then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of SMBC's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SMBC and subsidiaries as of March 31, 2004, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in Japan.

The consolidated financial statements as of and for the year ended March 31, 2004 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.
Tokyo, Japan
June 29, 2004

CONSOLIDATED FINANCIAL STATEMENTS OF SUMITOMO MITSUI BANKING CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
MARCH 31, 2004

	Millions of yen	Millions of U.S. dollars (Note 1)
Assets		
Cash and due from banks (Note 9)	¥ 3,525,056	$ 33,353
Deposits with banks (Notes 9, 28)	1,797,817	17,010
Call loans and bills bought	360,509	3,411
Receivables under resale agreements	152,070	1,439
Receivables under securities borrowing transactions	1,009,328	9,550
Commercial paper and other debt purchased (Note 28)	481,547	4,556
Trading assets (Notes 3, 9, 28)	3,306,780	31,287
Money held in trust (Note 28)	3,749	35
Securities (Notes 4, 9, 28)	26,863,501	254,173
Loans and bills discounted (Notes 5, 9, 27)	55,428,967	524,449
Foreign exchanges	743,957	7,039
Other assets (Notes 6, 9)	1,892,274	17,904
Premises and equipment (Notes 7, 9, 15)	896,614	8,483
Lease assets (Note 8)	24,835	235
Deferred tax assets (Note 24)	1,646,920	15,583
Deferred tax assets for land revaluation (Notes 15, 24)	706	7
Customers' liabilities for acceptances and guarantees	3,084,542	29,185
Reserve for possible loan losses	(1,375,921)	(13,019)
Total assets	**¥99,843,258**	**$ 944,680**
Liabilities, minority interests and stockholders' equity		
Liabilities		
Deposits (Notes 9, 10)	¥68,981,540	$ 652,678
Call money and bills sold (Note 9)	6,292,495	59,537
Payables under repurchase agreements (Note 9)	1,098,449	10,393
Payables under securities lending transactions (Note 9)	5,946,346	56,262
Commercial paper	3,000	28
Trading liabilities (Notes 9, 11)	1,873,245	17,724
Borrowed money (Notes 9, 12)	1,223,881	11,580
Foreign exchanges	572,755	5,419
Bonds (Note 13)	3,863,343	36,553
Due to trust account	36,032	341
Other liabilities (Notes 9, 14)	2,991,734	28,307
Reserve for employee bonuses	16,152	153
Reserve for employee retirement benefits (Note 25)	30,918	293
Reserves for expenses related to EXPO 2005 Japan	116	1
Other reserves	862	8
Deferred tax liabilities (Note 24)	39,797	377
Deferred tax liabilities for land revaluation (Notes 15, 24)	56,391	534
Acceptances and guarantees (Note 9)	3,084,542	29,185
Total liabilities	**¥96,111,607**	**$ 909,373**
Minority interests (Note 16)	**¥ 1,009,489**	**$ 9,551**
Stockholders' equity (Note 17)		
Capital stock (Note 17)	¥ 559,985	$ 5,298
Capital surplus	1,298,511	12,286
Retained earnings	519,354	4,914
Land revaluation excess (Notes 15, 24)	96,393	912
Net unrealized gains on other securities (Notes 24, 28)	319,780	3,026
Foreign currency translation adjustments	(71,861)	(680)
Total stockholders' equity	**¥ 2,722,161**	**$ 25,756**
Total liabilities, minority interests and stockholders' equity	**¥99,843,258**	**$ 944,680**

See accompanying notes to consolidated financial statements.

SUMITOMO MITSUI BANKING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED MARCH 31, 2004

	Millions of yen	Millions of U.S. dollars (Note 1)
Income		
Interest income:		
Interest on loans and discounts	¥1,139,037	$10,777
Interest and dividends on securities	256,601	2,428
Interest on receivables under resale agreements	2,542	24
Interest on receivables under securities borrowing transactions	104	1
Interest on deposits with banks	12,679	120
Other interest income	149,740	1,417
Trust fees	334	3
Fees and commissions (Note 18)	422,066	3,993
Trading profits (Note 19)	305,011	2,886
Other operating income (Note 20)	231,017	2,186
Other income (Note 21)	324,367	3,069
Total income	**¥2,843,502**	**$26,904**
Expenses		
Interest expenses:		
Interest on deposits	¥ 108,286	$ 1,025
Interest on borrowings and rediscounts	33,687	319
Interest on payables under repurchase agreements	4,212	40
Interest on payables under securities lending transactions	48,622	460
Interest on bonds	74,855	708
Other interest expenses	25,410	240
Fees and commissions (Note 18)	91,455	865
Trading losses (Note 19)	916	9
Other operating expenses (Note 22)	223,464	2,114
General and administrative expenses	776,106	7,343
Other expenses (Note 23)	1,100,179	10,410
Total expenses	**¥2,487,197**	**$23,533**
Income before income taxes and minority interests	**¥ 356,304**	**$ 3,371**
Income taxes (Note 24):		
Current	¥ 13,970	$ 132
Deferred	293	3
Minority interests in net income	¥ 40,376	$ 382
Net income	**¥ 301,664**	**$ 2,854**

	Yen	U.S. dollars (Note 1)
Per share data:		
Net income	¥5,238.85	$ 49.57
Net income — diluted	5,231.31	49.50
Declared dividends on common stock	4,177	39.52
Declared dividends on preferred stock (Type 1)	10,500	99.35
Declared dividends on preferred stock (Type 2)	28,500	269.66
Declared dividends on preferred stock (Type 3)	13,700	129.62

See accompanying notes to consolidated financial statements.

SUMITOMO MITSUI BANKING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
YEAR ENDED MARCH 31, 2004

	Millions of yen						
	Capital stock (Note 17)	Capital surplus	Retained earnings	Land revaluation excess	Net unrealized gains (losses) on other securities	Foreign currency translation adjustments	Total
Balance at March 31, 2003	¥559,985	¥1,298,511	¥258,690	¥101,336	¥ (21,559)	¥(54,419)	¥2,142,544
Merger of consolidated subsidiaries			(2,028)				(2,028)
Change due to decrease of affiliates			53				53
Transfer of land revaluation excess			4,428	(4,428)			—
Change in tax rate and others				(514)			(514)
Cash dividends paid			(43,454)				(43,454)
Net income			301,664				301,664
Change in net unrealized gains on other securities					341,339		341,339
Change in foreign currency translation adjustments						(17,442)	(17,442)
Balance at March 31, 2004	¥559,985	¥1,298,511	¥519,354	¥ 96,393	¥319,780	¥(71,861)	¥2,722,161

	Millions of U.S. dollars (Note 1)						
	Capital stock (Note 17)	Capital surplus	Retained earnings	Land revaluation excess	Net unrealized gains (losses) on other securities	Foreign currency translation adjustments	Total
Balance at March 31, 2003	$ 5,298	$ 12,286	$ 2,448	$ 959	$ (204)	$ (515)	$ 20,272
Merger of consolidated subsidiaries			(19)				(19)
Change due to decrease of affiliates			0				0
Transfer of land revaluation excess			42	(42)			—
Change in tax rate and others				(5)			(5)
Cash dividends paid			(411)				(411)
Net income			2,854				2,854
Change in net unrealized gains on other securities					3,230		3,230
Change in foreign currency translation adjustments						(165)	(165)
Balance at March 31, 2004	$ 5,298	$ 12,286	$ 4,914	$ 912	$ 3,026	$ (680)	$ 25,756

See accompanying notes to consolidated financial statements.

SUMITOMO MITSUI BANKING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2004

	Millions of yen	Millions of U.S. dollars (Note 1)
1. Cash flows from operating activities:		
Income before income taxes and minority interests	¥ 356,304	$ 3,371
Depreciation of premises, equipment and others	64,539	611
Depreciation of lease assets	7,496	71
Amortization of goodwill	(10,215)	(97)
Equity in earnings of affiliates	(231)	(2)
Net change in reserve for possible loan losses	(829,769)	(7,851)
Net change in reserve for possible losses on loans sold	(20,665)	(196)
Net change in reserve for employee bonuses	116	1
Net change in reserve for employee retirement benefits	(42,829)	(405)
Net change in reserve for expenses related to EXPO 2005 Japan	116	1
Interest income	(1,560,705)	(14,767)
Interest expenses	295,075	2,792
Net (gains) losses on securities	(70,282)	(665)
Net (gains) losses from money held in trust	(121)	(1)
Net exchange (gains) losses	406,335	3,845
Net (gains) losses from disposal of premises and equipment	29,072	275
Net (gains) losses from disposal of lease assets	299	3
Net change in trading assets	1,131,864	10,709
Net change in trading liabilities	(929,787)	(8,797)
Net change in loans and bills discounted	6,288,742	59,502
Net change in deposits	1,825,558	17,273
Net change in negotiable certificates of deposit	(1,306,888)	(12,365)
Net change in borrowed money (excluding subordinated debt)	(95,669)	(905)
Net change in deposits with banks	(1,297,907)	(12,280)
Net change in call loans, bills bought and receivables under resale agreements	(319,216)	(3,020)
Net change in receivables under securities borrowing transactions	971,914	9,196
Net change in call money, bills sold and payables under repurchase agreements	(5,704,903)	(53,978)
Net change in commercial paper	(47,500)	(450)
Net change in payables under securities lending transactions	1,139,101	10,778
Net change in foreign exchanges (assets)	5,016	47
Net change in foreign exchanges (liabilities)	175,444	1,660
Issuance and redemption of bonds (excluding subordinated bonds)	155,510	1,471
Net change in due to trust account	30,078	284
Interest received	1,606,598	15,201
Interest paid	(320,724)	(3,035)
Net change in payable on trading and securities contracts	1,188,672	11,247
Other, net	138,669	1,312
Subtotal	**¥ 3,259,107**	**$ 30,836**
Income taxes paid	(31,749)	(300)
Net cash provided by operating activities	**¥ 3,227,358**	**$ 30,536**

See accompanying notes to consolidated financial statements.

SUMITOMO MITSUI BANKING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS — (Continued)
YEAR ENDED MARCH 31, 2004

	Millions of yen	Millions of U.S. dollars (Note 1)
2. Cash flows from investing activities:		
Purchases of securities	¥(47,305,006)	$(447,583)
Proceeds from sale of securities	30,680,917	290,292
Proceeds from maturity of securities	13,965,385	132,135
Purchases of money held in trust	(21,225)	(201)
Proceeds from sale of money held in trust	42,259	400
Purchases of premises and equipment	(65,474)	(619)
Proceeds from sale of premises and equipment	19,901	188
Purchases of lease assets	(9,107)	(86)
Proceeds from sale of lease assets	1,990	19
Purchases of stock of subsidiaries	(8,978)	(85)
Net cash used in investing activities	**¥ (2,699,338)**	**$ (25,540)**
3. Cash flows from financing activities:		
Proceeds from issuance of subordinated debt	¥ 89,500	$ 847
Repayment of subordinated debt	(195,000)	(1,845)
Proceeds from issuance of subordinated bonds	436,453	4,130
Repayment of subordinated bonds	(150,713)	(1,426)
Dividends paid	(43,507)	(412)
Proceeds from minority stockholders	25	0
Dividends paid to minority stockholders	(33,279)	(315)
Net cash provided by financing activities	**¥ 103,479**	**$ 979**
4. Effect of exchange rate changes on cash and due from banks	**¥ (2,412)**	**$ (23)**
5. Net change in cash and due from banks	**¥ 629,087**	**$ 5,952**
6. Cash and due from banks at beginning of year	**¥ 2,895,968**	**$ 27,401**
7. Cash and due from banks at end of year	**¥ 3,525,056**	**$ 33,353**

See accompanying notes to consolidated financial statements.

SUMITOMO MITSUI BANKING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED MARCH 31, 2004

1. Basis of Presentation

Sumitomo Mitsui Banking Corporation (''SMBC'') has prepared the accompanying consolidated financial statements in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statement of stockholders' equity) from the consolidated financial statements of SMBC prepared in accordance with Japanese GAAP. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

Amounts less than one million yen have been omitted. As a result, the totals in Japanese yen shown in the financial statements do not necessarily agree with the sum of the individual amounts. The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2004, which was ¥105.69 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at that rate.

2. Significant Accounting Policies

(1) Consolidation and Equity Method

(a) Scope of consolidation

Japanese accounting standards on consolidated financial statements require a company to consolidate any subsidiaries of which the company substantially controls the operations, even if it is not a majority owned subsidiary. Control is defined as the power to govern the decision making body of an enterprise.

(i) Consolidated subsidiaries

SMBC has 114 consolidated subsidiaries and principal subsidiaries are as follows:

THE MINATO BANK, LTD.
Kansai Urban Banking Corporation
Sumitomo Mitsui Banking Corporation Europe Limited
Manufacturers Bank
SMBC Capital Co., Ltd.
SMBC Finance Service Co., Ltd.
SMBC Friend Securities Co., Ltd.
SMBC Capital Markets, Inc.

From this fiscal year, eight companies including FRESCO Card Inc. were additionally consolidated due to acquirement of shares.

Former The Kansai Sawayaka Bank, Limited (''Sawayaka'') was consolidated due to acquirement of shares in this fiscal year. However, Sawayaka was merged with former The Bank of Kansai, Ltd. and excluded from the scope of consolidation during this fiscal year. (The Bank of Kansai, Ltd. changed its name to Kansai Urban Banking Corporation at the time of the merger).

From this fiscal year, four companies including Sakura Friend Securities Co., Ltd. and four companies including Sakura Global Capital Asia Limited were excluded from the scope of consolidation due to merger and liquidation, respectively.

(ii) Nonconsolidated subsidiaries
Principal company
SBCS Co., Ltd.

Nonconsolidated subsidiaries' total assets, ordinary income, net income and retained earnings have no material impact on the consolidated financial statements.

(b) Application of the equity method

Japanese accounting standards also require any nonconsolidated subsidiaries and affiliates on which SMBC is able to exercise material influence over their financial and operating policies are to be accounted for by the equity method.

(i) Nonconsolidated subsidiaries accounted for by the equity method — 4 companies
Principal company
SBCS Co., Ltd.

(ii) Affiliates accounted for by the equity method — 11 companies
Principal companies
Sumitomo Mitsui Asset Management Company, Limited
QUOQ Inc.

From this fiscal year, DLJ direct SFG Securities Inc. was excluded from affiliated companies due to sale of stocks.

(iii) Nonconsolidated subsidiaries and affiliates that are not accounted for by the equity method
Principal companies
SIS Techno-Service Co., Ltd.
Sumitomo Mitsui Asset Management Company (New York) Inc.

Net income and retained earnings of nonconsolidated subsidiaries and affiliates that are not accounted for by the equity method have no material impact on the consolidated financial statements.

(c) The balance sheet dates of consolidated subsidiaries

(i) The dates of year-end account closing of consolidated subsidiaries are as follows:

September 30	5 companies
October 31	1 company
December 31	47 companies
January 31	1 company
March 31	60 companies

A consolidated domestic subsidiary changed its balance sheet date from December 31 to March 31 from this fiscal year. Therefore, SMBC's consolidated financial statements include the subsidiary's profit or loss for the period from January 1, 2003 to March 31, 2004. However, this change had no material impact on the consolidated financial statements.

(ii) As for the companies whose balance sheet dates are September 30 and October 31, the accounts were provisionally closed as of March 31 and January 31 for the purpose of consolidation, respectively. The other companies are consolidated on the basis of their respective balance sheet dates.

Appropriate adjustments were made for material transactions during the periods from their respective balance sheet dates to the consolidated closing dates.

(d) Valuation of consolidated subsidiaries' assets and liabilities

Assets and liabilities of consolidated subsidiaries including the portion attributable to minority stockholders are valuated for consolidation at fair value when SMBC acquires their control.

(e) Amortization of goodwill

Goodwill is charged or credited to income directly when incurred.

(2) Statement of cash flows

For the purposes of the consolidated statement of cash flows, cash and cash equivalents represent cash and due from banks.

Reconciliation of the opening balance and the expense (net) for acquisition with respect to acquisition of three companies including former The Kansai Sawayaka Bank, Limited is as follows:

	Millions of yen	Millions of U.S. dollars
Assets	¥ 800,140	$ 7,571
Loans and bills discounted	593,042	5,611
Liabilities	¥(724,780)	$(6,858)
Deposits	(682,795)	(6,460)
Minority interests	(23,450)	(222)
Goodwill	(13,136)	(124)
Acquisition costs for the three companies' stocks (a)	38,773	367
Cash and due from banks of the three companies (b)	(29,794)	(282)
(a) – (b) Cash expenditure for acquisition of the three companies	¥ 8,978	$ 85

(3) Trading assets/liabilities and trading profits/losses

Transactions for trading purposes (seeking gains arising from short-term changes in interest rates, currency exchange rates, or market prices of securities and other market related indices or from variation among markets) are included in "Trading assets" or "Trading liabilities" on the consolidated balance sheet on a contract date basis. Profits and losses on trading transactions are also recognized on a contract date basis, and recorded as "Trading profits" and "Trading losses."

Securities and monetary claims purchased for trading purposes are stated at the fiscal year-end market value, and financial derivatives such as swaps, futures and options are stated at amounts that would be settled if the transactions were terminated at the consolidated balance sheet date.

Trading profits and losses include interest received or paid during the fiscal year. The valuation differences of securities and money claims between the previous fiscal year-end and this fiscal year-end are recorded in the above-mentioned accounts. As for the derivatives, assuming that the settlement will be made in cash, the valuation differences between the previous fiscal year-end and this fiscal year-end are recorded in the above-mentioned accounts.

SMBC formerly accounted for foreign currency translation differences arising from currency swaps for trading purposes as "Other assets" or "Other liabilities" on the balance sheet on a net basis. From this fiscal year, SMBC accounts for such foreign currency differences as "Trading assets" and "Trading liabilities" on a gross basis, pursuant to the "Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry" (JICPA Industry Audit Committee Report No.25). Consequently, "Other liabilities" decreased by ¥61,077 million ($578 million), and "Trading assets" and "Trading liabilities" increased by ¥19,741 million ($187 million) and ¥80,818 million ($765 million), respectively.

(4) Securities

As for securities other than trading purposes, debt securities that SMBC and consolidated subsidiaries have the intent and ability to hold to maturity (held-to-maturity securities) are carried at amortized cost (straight-line method) using the moving-average method.

Investments in nonconsolidated subsidiaries and affiliates that are not accounted for by the equity method are carried at cost using the moving-average method.

Securities other than trading purpose securities, held-to-maturity debt securities and investments in subsidiaries and affiliates are classified as "other securities" (available-for-sale securities). Stocks in other securities that have market value are carried at the average market prices during the final month of the fiscal year, and bonds and others that have market prices are carried at their fiscal year-end market prices (cost of securities sold is calculated using primarily the moving-average method). Other securities with no market prices are carried at cost or amortized cost using the moving-average method. Net unrealized gains (losses) on other securities, net of income taxes, are included in "Stockholders' equity," after deducting the amount that is reflected in the fiscal year's earnings because of application of fair value hedge accounting.

Securities included in money held in trust account are carried in the same manner as for securities mentioned above.

(5) Derivative transactions

Derivative transactions, excluding those classified as trading derivatives, are carried at fair value, though some consolidated overseas subsidiaries account for derivative transactions in accordance with local accounting standards.

(6) Hedge accounting

(a) Hedging against interest rate changes

As for the hedge accounting method applied to hedging transactions for interest rate risk arising from financial assets and liabilities, SMBC applies deferred hedge accounting or fair value hedge accounting.

In the previous fiscal year, SMBC applied the temporary treatment stipulated in the "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry" (JICPA Industry Audit Committee Report No. 24) to the "macro hedge," which is the management of interest rate risk arising from large-volume transactions in loans, deposits and other interest-earning assets and interest-bearing liabilities as a whole using derivatives. From this fiscal year, SMBC applies the basic provisions of JICPA Industry Audit Committee Report No. 24 to hedges on groups of large-volume, small-value monetary claims and debts with similar risk characteristics. SMBC assesses the effectiveness of such hedges in offsetting movement of the fair value by the changes in interest rates, by classifying the hedged items (such as deposits and loans) and the hedging instruments (such as interest rate swaps) by their maturity. As to the cash flow hedges, SMBC assesses the effectiveness of such hedges in fixing cash flows by verifying the correlation between the hedged items and the hedging instruments. As to the individual hedges, SMBC also assesses the effectiveness of such hedges.

As a result of changing the designation of hedge relationship pursuant to JICPA Industry Audit Committee Report No. 24, SMBC applies fair value hedge accounting to hedging transactions for reducing the exposure to market volatility of bonds classified as other securities that are held for the purpose of Asset and Liability Management in order to more properly reflect the effectiveness of hedging transactions in the financial statements. Consequently, "Other assets" and "Net unrealized gains on other securities" decreased by ¥28,948 million ($274 million) and ¥13,923 million ($132 million), respectively and "Deferred tax assets" increased by ¥9,528 million ($90 million).

A portion of deferred hedge losses and gains, which was previously under the macro hedge, is no longer subject to hedge accounting. The deferred hedge losses and gains related to hedging instruments to which SMBC discontinued the application of hedge accounting or applied fair value hedge accounting as a result of the change mentioned above are charged to "Interest income" or "Interest expenses" over a 12-year period (maximum) from this fiscal year according to their maturity. At this fiscal year-end, gross amounts of deferred hedge losses and gains on "macro hedge" were ¥320,513 million ($3,033 million) and ¥293,837 million ($2,780 million), respectively.

(b) Hedging against currency fluctuations

SMBC applies deferred hedge accounting stipulated in the basic provisions of JICPA Industry Audit Committee Report No. 25 to currency swap and foreign exchange swap transactions executed for the purpose of lending or borrowing funds in different currencies.

Pursuant to JICPA Industry Audit Committee Report No. 25, SMBC assesses the effectiveness of currency swap and foreign exchange swap transactions executed for the purpose of offsetting the risk of changes in currency exchange rates by verifying that there are foreign-currency monetary claims and debts corresponding to the foreign-currency positions.

In order to hedge risk arising from volatility of exchange rates for stocks of subsidiaries and affiliates and other securities (excluding bonds) denominated in foreign currencies, SMBC applies deferred hedge accounting or fair value hedge accounting, on the conditions that the hedged securities are designated in advance and that sufficient on-balance (actual) or off-balance (forward) liability exposure exists to cover the cost of the hedged securities denominated in the same foreign currencies.

(c) Transactions between consolidated subsidiaries

As for derivative transactions between consolidated subsidiaries or internal transactions between trading accounts and other accounts (or among internal sections), SMBC manages the interest rate swaps and currency swaps that are designated as hedging instruments in accordance with the strict criteria for external transactions stipulated in JICPA Industry Audit Committee Report No. 24 and No. 25. Therefore, SMBC accounts for the gains or losses that arise from interest rate swaps and currency swaps in its earnings or defers them, rather than eliminating them.

(7) Non-accrual loans

Loans are generally placed on non-accrual status when such loans are classified as Bankrupt, Effectively Bankrupt or Potentially Bankrupt by the self-assessment rule (see (11) Reserve for possible loan losses).

(8) Bills discounted

Bills discounted are accounted for as financial transactions in accordance with JICPA Industry Audit Committee Report No. 24. SMBC and banking subsidiaries have rights to sell or pledge bank acceptance bought, commercial bills discounted, documentary bills and foreign exchanges bought without restrictions. The total face value was ¥1,023,057 million ($9,680 million) at March 31, 2004.

(9) Premises and equipment

Premises and equipment are generally stated at cost less accumulated depreciation. SMBC computes depreciation for premises using the straight-line method over the estimated useful lives of the respective assets. The depreciation for equipment is computed using the declining-balance method over the estimated useful lives of the respective assets. The estimated useful lives of major items are as follows:

Buildings: 7 to 50 years
Equipment: 2 to 20 years

Depreciation of premises and equipment owned by consolidated subsidiaries is mainly computed using the straight-line method over the estimated useful lives of respective assets.

(10) Software costs

Capitalized software for internal use is depreciated using the straight-line method over its estimated useful life (mainly five years) at SMBC and consolidated domestic subsidiaries, and is included in Other assets.

(11) Reserve for possible loan losses

Reserve for possible loan losses of SMBC and major consolidated subsidiaries is provided as detailed below in accordance with the internal standards for write-offs and reserves.

For claims on borrowers that have entered into bankruptcy, special liquidation proceedings or similar legal proceedings (“bankrupt borrowers”) or borrowers that are not legally or formally insolvent but are regarded as substantially in the same situation (“effectively bankrupt borrowers”), a reserve is provided based on the amount of claims, after the charge-off stated below, net of the expected amount of recoveries from collateral and guarantees.

For claims on borrowers that are not currently bankrupt but are likely to become bankrupt in the future, a reserve is provided in the amount deemed necessary based on an overall solvency assessment of the claims, net of the expected amount of recoveries from collateral and guarantees.

Of the claims on borrowers requiring close monitoring, SMBC applies the Discounted Cash Flows method (''DCF method'') to the claims on borrowers, all or some of whose loans are classified as ''Past due loans (3 months or more)'' or ''Restructured loans'' and whose total loans exceed a certain amount. SMBC establishes a reserve for possible loan losses using the DCF method for such claims in the amount of the difference between the present value of principal and interest (calculated using the rationally estimated cash flows discounted at the initial contractual interest rate) and the book value.

For other claims, a reserve is provided based on the historical loan-loss ratio.

For claims originated in specific countries, an additional reserve is provided for by the amount deemed necessary based on the assessment of political and economic conditions.

Branches and credit supervision departments assess all claims in accordance with the internal rule for self-assessment of assets, and the Credit Review Department, independent from these operating sections, audits their assessment. The reserves are provided based on the results of these assessments.

Reserve for possible loan losses of other consolidated subsidiaries for general claims is provided in the amount deemed necessary based on the historical loan-loss ratio, and for doubtful claims in the amount deemed uncollectible based on assessment of each claim.

For collateralized or guaranteed claims on bankrupt borrowers and effectively bankrupt borrowers, the amount exceeding the estimated value of collateral and guarantees is deemed to be uncollectible and charged off against the total outstanding amount of the claims. The amount of charge-off was ¥1,190,953 million ($11,268 million).

(12) Reserve for expenses related to EXPO 2005 Japan

SMBC accounts for the exhibition expenses related to ''The 2005 World Exposition, Aichi, Japan'' that will be held in Aichi Prefecture in 2005 as ''Reserve for expenses related to EXPO 2005 Japan'', which includes the reserve that is stipulated in Article 57-2 of the Specific Taxation Measures Law.

(13) Reserve for employee bonuses

Reserve for employee bonuses is provided, in provision for payment of bonuses to employees, in the amount of estimated bonuses, which are attributable to the respective fiscal year.

(14) Reserve for employee retirement benefits

Reserve for employee retirement benefits is provided, in provision for payment of retirement benefits to employees, in the amount deemed accrued at the fiscal year-end, based on the projected retirement benefit obligation and the fair value of plan assets at the fiscal year-end. Unrecognized prior service cost is amortized using the straight-line method over certain years (mainly 10 years) within the average remaining service period of active employees. Unrecognized net actuarial gain or loss is amortized from the next fiscal year using the straight-line method over certain years (mainly 10 years) within the average remaining service period of active employees. Unrecognized net obligation from initial application of the new accounting standard for employee retirement benefits is amortized using the straight-line method over five years.

(15) Other reserves

Other reserves required by special laws are reserve for contingent liabilities from financial futures transaction of ¥18 million ($0 million) in accordance with Article 82 of the Financial Futures Transaction Law, and reserve for contingent liabilities from securities transaction of ¥843 million ($8 million) in accordance with Article 51 of the Securities and Exchange Law.

(16) Translation of foreign currencies

SMBC's assets and liabilities denominated in foreign currencies and overseas branches' accounts are translated into Japanese yen mainly at the exchange rate prevailing at the consolidated balance sheet date, with the exception of stocks of subsidiaries and affiliates translated at rates prevailing at the time of acquisition.

Consolidated subsidiaries' assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing at their respective balance sheet dates.

As for the accounting method of foreign currency transactions, in the previous fiscal year, SMBC and domestic consolidated banking subsidiaries applied the temporary treatment stipulated in JICPA Industry Audit Committee Report No. 25 to currency swaps and foreign exchange swaps for the purpose of lending or borrowing funds in different currencies. From this fiscal year, they apply the hedge accounting pursuant to the basic provisions of JICPA Industry Audit Committee Report No. 25.

Consequently, for this fiscal year, the domestic consolidated banking subsidiaries have valuated such foreign exchange swaps at fair value and included their fair-valued assets and liabilities in the consolidated balance sheet. Previously, profits or losses on the foreign exchange swaps were charged to income by periodical allocation. As a result, "Other assets" and "Other liabilities" each increased by ¥1,035 million ($10 million). However, this accounting change had no impact on profit or loss.

Foreign currency translation differences arising from currency swaps and forward foreign exchange transactions were formerly accounted for as "Other assets" or "Other liabilities" on a net basis, but from this fiscal year they are accounted for as "Other assets" or "Other liabilities" on a gross basis pursuant to JICPA Industry Audit Committee Report No. 25. Consequently, "Other assets" and "Other liabilities" increased by ¥450,929 million ($4,267 million) each.

Other consolidated subsidiaries' assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing at their respective balance sheet dates.

(17) Lease transactions

Financing leases where the ownership of the property is deemed to be transferred to the lessee are capitalized, while other financing leases are allowed to be accounted for in the same manner as operating leases.

Lease assets are depreciated using the straight-line method over the lease term with estimated salvage value.

Lease-related income is recognized on a straight-line basis over the full term of the lease, based on the contractual amount of lease fees per month.

(18) Appropriation of retained earnings

The consolidated statement of stockholders' equity reflects the appropriation of retained earnings approved by the board of directors and/or the general meeting of shareholders.

(19) Amounts per share

Net income per share is computed by deducting dividends for preferred stock from net income, divided by the weighted average number of shares of common stock during the fiscal year.

Declared dividends represent the cash dividends declared applicable to respective years, including dividends to be paid after the end of the year.

(20) Change in presentation of financial statements

Effective April 1, 2003, amortization of bond discount, which was formerly included in "Other interest expenses," is included in "Interest on bonds" pursuant to the revision of the Ordinance of the Banking Law.

3. Trading Assets

Trading assets at March 31, 2004 consisted of the following:

March 31, 2004	Millions of yen	Millions of U.S. dollars
Trading securities	¥ 80,766	$ 764
Derivatives on trading securities	139	1
Derivatives on securities related to trading transactions	595	5
Trading-related financial derivatives	2,135,318	20,204
Other trading assets	1,089,960	10,313
	¥3,306,780	$31,287

4. Securities

Securities at March 31, 2004 consisted of the following:

March 31, 2004	Millions of yen	Millions of U.S. dollars
Japanese government bonds*	¥14,448,940	$136,711
Japanese local government bonds	506,263	4,790
Japanese corporate bonds	2,652,075	25,093
Japanese stocks**	3,475,039	32,880
Other**	5,781,181	54,699
	¥26,863,501	$254,173

* Includes ¥15,849 million ($150 million) of unsecured loaned securities for which borrowers have the rights to sell or pledge and loaned securities of ¥99 million ($1 million) for which borrowers only have the rights to pledge and not to sell.

As for the unsecured borrowed securities for which SMBC has the rights to sell or pledge and the securities which SMBC purchased under resale agreements, that are permitted to sell or pledge without restrictions, ¥1,022,170 million ($9,671 million) of securities are pledged, ¥165,047 million ($1,562 million) of securities are held in hand as of the consolidated balance sheet date. SMBC may pledge the borrowed securities as well.

** Japanese stocks and other include investments in nonconsolidated subsidiaries and affiliates of ¥21,766 million ($206 million).

5. Loans and Bills Discounted

Loans and bills discounted at March 31, 2004 consisted of the following:

March 31, 2004	Millions of yen	Millions of U.S. dollars
Bills discounted	¥ 644,002	$ 6,093
Loans on notes	6,298,595	59,595
Loans on deeds	40,641,767	384,538
Overdrafts	7,844,602	74,223
	¥55,428,967	$524,449

Loans and bills discounted included the following "Risk-monitored loans" stipulated in the Banking Law:

March 31, 2004	Millions of yen	Millions of U.S. dollars
Bankrupt loans*1	¥ 96,101	$ 909
Non-accrual loans*2	1,710,575	16,185
Past due loans (3 months and more)*3	51,019	483
Restructured loans*4	1,371,524	12,977
	¥3,229,219	$30,554

*1 "Bankrupt loans" are loans, after write-offs, to legally bankrupt borrowers as defined in Article 96-1-3 and 96-1-4 of the Enforcement Ordinance No. 97 of the Japanese Corporate Tax Law (issued in 1965) and on which accrued interest income is not recognized as there is substantial doubt about the ultimate collectability of either principal or interest because they are past due for a considerable period of time or for other reasons.

*2 "Non-accrual loans" are loans on which accrued interest income is not recognized, excluding "Bankrupt loans" and loans on which interest payments are deferred in order to support the borrowers' recovery from financial difficulties.

*3 "Past due loans (3 months or more)" are loans on which the principal or interest is past due for three months or more, excluding "Bankrupt loans" and "Non-accrual loans."

*4 "Restructured loans" are loans on which terms and conditions have been amended in favor of the borrowers (e.g. reduction of the original interest rate, deferral of interest payments, extension of principal repayments or debt forgiveness) in order to support the borrowers' recovery from financial difficulties, excluding "Bankrupt loans", "Non-accrual loans" and "Past due loans (3 months or more)".

The amounts above include the trusted amount with the Resolution and Collection Corporation of ¥7,522 million ($71 million), which is treated as off-balancing.

6. Other Assets

Other assets at March 31, 2004 consisted of the following:

March 31, 2004	Millions of yen	Millions of U.S. dollars
Accrued income	¥ 204,989	$ 1,940
Deferred assets	8,053	76
Financial derivatives*	1,006,475	9,523
Other	672,756	6,365
	¥1,892,274	$17,904

* Net amount of deferred unrealized gains (losses) on hedging instruments to which deferred hedge accounting is applied is reported as deferred loss on hedge and is included in "Financial derivatives." Gross deferred unrealized losses and gains on hedging instruments before netting were ¥659,048 million ($6,236 million) and ¥563,049 million ($5,327 million), respectively.

7. Premises and Equipment

Premises and equipment at March 31, 2004 consisted of the following:

March 31, 2004	Millions of yen	Millions of U.S. dollars
Land*	¥ 479,306	$ 4,535
Buildings	508,134	4,808
Equipment and others	434,349	4,109
Total	¥1,421,791	$13,452
Accumulated depreciation	525,176	4,969
	¥ 896,614	$ 8,483

* Includes land revaluation excess for land referred to in Note 15.

8. Lease Assets

Lease assets at March 31, 2004 were as follows:

March 31, 2004	Millions of yen	Millions of U.S. dollars
Equipment and others	¥53,696	$508
Accumulated depreciation	28,861	273
	¥24,835	$235

9. Assets Pledged as Collateral

Assets pledged as collateral at March 31, 2004 consisted of the following:

March 31, 2004	Millions of yen	Millions of U.S. dollars
Assets pledged as collateral		
Cash and due from banks and Deposits with banks	¥ 112,778	$ 1,067
Trading assets	540,579	5,115
Securities	10,723,663	101,463
Loans and bills discounted	1,375,426	13,014
Other assets	1,056	10
Premises and equipment	524	5
Liabilities corresponding to assets pledged as collateral		
Deposits	¥ 15,276	$ 145
Call money and bills sold	5,175,669	48,970
Payables under repurchase agreements	1,055,508	9,987
Payables under securities lending transactions	5,700,206	53,933
Trading liabilities	203,599	1,926
Borrowed money	4,451	42
Other liabilities	1,122	11
Acceptances and guarantees	141,835	1,342

In addition to the assets presented above, the following assets were pledged as collateral for exchange settlements, initial margins of futures markets and certain other purposes at March 31, 2004:

March 31, 2004	Millions of yen	Millions of U.S. dollars
Cash and due from banks and Deposits with banks	¥ 42,537	$ 402
Trading assets	3,908	37
Securities	6,799,796	64,337
Loans and bills discounted	55,000	520

Premises and equipment included surety deposits and intangibles of ¥105,846 million ($1,001 million) at March 31, 2004. Other assets included initial margins of futures markets of ¥8,130 million ($77 million) at March 31, 2004.

10. Deposits

Deposits at March 31, 2004 consisted of the following:

March 31, 2004	Millions of yen	Millions of U.S. dollars
Current deposits	¥ 5,425,549	$ 51,335
Ordinary deposits	29,312,185	277,341
Savings deposits	1,206,013	11,411
Deposits at notice	3,802,594	35,979
Time deposits	20,873,298	197,495
Negotiable certificates of deposit	3,587,464	33,943
Other deposits	4,774,435	45,174
	¥68,981,540	$652,678

11. Trading Liabilities

Trading liabilities at March 31, 2004 consisted of the following:

March 31, 2004	Millions of yen	Millions of U.S. dollars
Trading securities	¥ 32,658	$ 309
Derivatives on trading securities	242	2
Derivatives of securities related to trading transactions	940	9
Trading-related financial derivatives	1,839,404	17,404
	¥1,873,245	$17,724

12. Borrowed Money

Borrowed money at March 31, 2004 consisted of the following:

March 31, 2004	Millions of yen	Millions of U.S. dollars	Average rate*
Bills rediscounted	¥ —	$ —	—
Other borrowings**	1,223,881	11,580	2.46%
	¥1,223,881	$11,580	2.46%

* Average rate represents the weighted average rate based on the balances and rates at respective year-end of SMBC and consolidated subsidiaries.

** Includes subordinated debt obligation of ¥770,003 million ($7,285 million).

The repayment schedule within five years on borrowed money at March 31, 2004 is shown as follows:

Millions of yen				
1 year or less	More than 1 year to 2 years	More than 2 years to 3 years	More than 3 years to 4 years	More than 4 years to 5 years
¥323,623	¥76,654	¥9,389	¥64,859	¥23,332

Millions of U.S. dollars				
1 year or less	More than 1 year to 2 years	More than 2 years to 3 years	More than 3 years to 4 years	More than 4 years to 5 years
$3,062	$725	$89	$614	$221

13. Bonds

Bonds at March 31, 2004 consisted of the following:

		March 31, 2004			
Issuer	Description	Millions of yen*	Millions of U.S. dollars	Rate (%)	Due
SMBC	Straight bonds, payable in Yen	¥ 2,070,089 [366,976]	$19,586	0.51-1.982	Oct. 2004-Mar. 2013
	Straight bonds, payable in Euro Yen	5,000	47	3.00	Mar. 2012
	Straight bonds, payable in U.S. dollars	73,983 ($700,000 thousand)	700	4.32-6.02	May 2005-Sep. 2005
	Subordinated bonds, payable in Yen	350,000	3,312	1.71-2.62	Jun. 2010-Feb. 2014
	Subordinated bonds, payable in Euro Yen	483,100	4,571	0.6015-2.72	Sept. 2009-Perpetual
	Subordinated bonds, payable in U.S. dollars	171,640 ($1,624,000 thousand)	1,624	5.93-8.15	Nov. 2011-Perpetual
	Subordinated bonds, payable in British pound sterling	2,317 (£12,000 thousand)	22	6.98	Perpetual
Consolidated subsidiaries:	Straight bonds, payable in Yen	43,455 [19,905]	411	0.04-3.50	Mar. 2004-Aug. 2022
	Straight bonds, payable in U.S. dollars	4,061 ($38,000 thousand)	38	1.67-7.66	Jun. 2005-May 2009
	Straight bonds, payable in other foreign currency	4,872 [1,990]	46	3.90-5.61	May 2004-Jun. 2018
	Subordinated bonds, payable in Yen	546,491 [12,000]	5,171	0.00-5.98	Mar. 2005-Perpetual
	Subordinated bonds, payable in U.S. dollars	108,332 ($1,025,000 thousand)	1,025	2.29-8.50	Jun. 2009-Perpetual
		¥ 3,863,343	$36,553		

* Figures in ( ) are the balances in the original currency of the foreign currency denominated bonds, and figures in [ ] are the amounts to be redeemed within one year.

The redemption schedule within five years on bonds at March 31, 2004 is shown as follows:

Millions of yen				
1 year or less	More than 1 year to 2 years	More than 2 years to 3 years	More than 3 years to 4 years	More than 4 years to 5 years
¥400,872	¥603,015	¥393,787	¥407,748	¥399,737

Millions of U.S. dollars				
1 year or less	More than 1 year to 2 years	More than 2 years to 3 years	More than 3 years to 4 years	More than 4 years to 5 years
$3,793	$5,706	$3,726	$3,858	$3,782

14. Other Liabilities

Other liabilities at March 31, 2004 consisted of the following:

March 31, 2004	Millions of yen	Millions of U.S. dollars
Accrued expenses	¥ 102,358	$ 968
Unearned income	166,256	1,573
Income taxes payable	22,888	217
Financial derivatives	893,289	8,452
Other	1,806,942	17,097
	¥2,991,734	$28,307

15. Land Revaluation Excess

SMBC revaluated its own land for business activities in accordance with the "Law Concerning Land Revaluation" (the "Law") effective March 31, 1998 and the law concerning amendment of the Law effective March 31, 2001. The income taxes corresponding to the net unrealized gains are deferred and reported in "Liabilities" as "Deferred tax liabilities for land revaluation," and the net unrealized gains, net of deferred taxes, are reported as "Land revaluation excess" in "Stockholders' equity".

Certain consolidated subsidiaries revaluated their own land for business activities in accordance with the Law. The income taxes corresponding to the net unrealized gains (losses) are deferred and reported in "Liabilities" or "Assets" as "Deferred tax liabilities for land revaluation" or "Deferred tax assets for land revaluation" and the net unrealized gains (losses), net of deferred taxes, are reported as "Land revaluation excess" in "Stockholders' equity".

Date of the revaluation

SMBC: March 31, 1998 and March 31, 2002
Certain consolidated subsidiaries: March 31, 1999 and March 31, 2002

Method of revaluation (provided in Article 3-3 of the Law)

SMBC: Fair values were determined by applying appropriate adjustments for land shape and timing of appraisal to the values specified in Article 2-3, 2-4 or 2-5 of the Enforcement Ordinance of the Law concerning Land Revaluation (the Enforcement Ordinance No. 119) effective March 31, 1998.

Certain consolidated subsidiaries: Fair values were determined based on the values specified in Article 2-3 and 2-5 of the Enforcement Ordinance No. 119.

The total fair value of land for business activities revaluated pursuant to Article 10 of the Law at the fiscal year-end is ¥16,497 million ($156 million) lower than their total revaluated book value.

16. Minority Interests

SB Treasury Company, L.L.C., a subsidiary of SMBC, issued floating noncumulative preferred securities, totaling $1,800 million in February 1998. SB Equity Securities (Cayman), Limited, a subsidiary of SMBC, issued floating noncumulative preferred securities, totaling ¥340,000 million in February and March 1999. Sakura Preferred Capital (Cayman) Limited, a subsidiary of SMBC, issued noncumulative preferred securities, totaling ¥283,750 million in December 1998 and March 1999. These subsidiaries are consolidated and the preferred securities are accounted for as minority interests.

17. Stockholders' Equity

Capital stock consists of common stock and preferred stock. Common stock and preferred stock at March 31, 2004 are as follows:

Number of shares	Authorized	Issued and outstanding
Common stock	100,000,000	54,811,805
Preferred stock (Type 1)	67,000	67,000
Preferred stock (Type 2)	100,000	100,000
Preferred stock (Type 3)	800,000	800,000
Preferred stock (Type 4)	250,000	—
Preferred stock (Type 5)	250,000	—
Preferred stock (Type 6)	300,000	—
Total	101,767,000	55,778,805

All of the preferred stock is noncumulative and nonparticipating for dividend payments, and shareholders of the preferred stock are not entitled to vote at a general meeting of shareholders except when the bill to pay the prescribed dividends to shareholders is not submitted to the general meeting of shareholders or the bill to pay the prescribed dividends to shareholders is rejected at the general meeting of shareholders. Annual dividends per share of preferred stock (Type 1, 2, 3) are paid to shareholders by ¥10,500, ¥28,500 and ¥13,700, respectively.

As for liquidation distribution, shareholders of preferred stock (Type 1, 2, 3) receive ¥3,000,000, ¥3,000,000 and ¥1,000,000 per share, respectively, and do not have the right to participate in any further liquidation distribution.

SMBC may, at any time, purchase and retire them out of earnings available for distribution to the shareholders.

Shareholders of preferred stock (Type 1, 2, 3) may convert the preferred stock into common stock at any time excluding certain periods, from the issuance date to February 26, 2009, from August 1, 2005 to February 26, 2009 and from the issuance date to September 30, 2009, respectively, in each case subject to certain adjustments. The preferred stock (Type 1, 2) outstanding on February 26, 2009 will be mandatorily converted into common stock at the conversion ratio of ¥3,000,000 divided by the higher of ¥500,000 and the average market price of common stock of Sumitomo Mitsui Financial Group, Inc. ("SMFG") for a certain period preceding February 26, 2009. The preferred stock (Type 3) outstanding on September 30, 2009 will be mandatorily converted into common stock at the conversion ratio of ¥1,000,000 divided by the higher of ¥258,330 and the average market price of common stock of SMFG for a certain period preceding September 30, 2009.

18. Fees and Commissions

Fees and commissions for the year ended March 31, 2004 consisted of the following:

Year ended March 31, 2004	Millions of yen	Millions of U.S. dollars
Fees and commissions (income):		
Deposits and loans	¥ 35,566	$ 337
Remittances and transfers	119,374	1,130
Securities-related business	43,884	415
Agency	16,247	154
Safe deposits	5,927	56
Guarantees	33,221	314
Credit card business	8,820	83
Investment trusts	35,214	333
Other	123,810	1,171
	¥422,066	$3,993
Fees and commissions (expenses):		
Remittances and transfers	¥ 23,553	$ 223
Other	67,902	642
	¥ 91,455	$ 865

19. Trading Income

Trading income for the year ended March 31, 2004 consisted of the following:

Year ended March 31, 2004	Millions of yen	Millions of U.S. dollars
Trading profits:		
Gains on trading-related financial derivatives	¥298,275	$2,822
Other	6,735	64
	¥305,011	$2,886
Trading losses:		
Losses on securities related to trading transactions	¥ 904	$ 9
Other	11	0
	¥ 916	$ 9

20. Other Operating Income

Other operating income for the year ended March 31, 2004 consisted of the following:

Year ended March 31, 2004	Millions of yen	Millions of U.S. dollars
Gains on financial derivatives	¥ 11,472	$ 109
Gains on sale of bonds	132,448	1,253
Gains on redemption of bonds	62	1
Lease-related income	15,050	142
Other	71,983	681
	¥231,017	$2,186

21. Other Income

Other income for the year ended March 31, 2004 consisted of the following:

Year ended March 31, 2004	Millions of yen	Millions of U.S. dollars
Gains on sale of stocks and other securities	¥160,105	$1,515
Gains on money held in trust	338	3
Equity in earnings of affiliates	231	2
Gains on disposal of premises and equipment	1,559	15
Collection of written-off claims	875	8
Gains on return of the entrusted portion of employee pension fund	59,095	559
Tax refund from the Tokyo Metropolitan Government	38,236	362
Interest on the tax refund from the Tokyo Metropolitan Government	2,127	20
Gains on reversal of reserve for possible loan losses	24,111	228
Gains on reversal of reserve for possible losses on loans sold	489	5
Other	37,196	352
	¥324,367	$3,069

22. Other Operating Expenses

Other operating expenses for the year ended March 31, 2004 consisted of the following:

Year ended March 31, 2004	Millions of yen	Millions of U.S. dollars
Losses on sale of bonds	¥107,772	$1,020
Losses on redemption of bonds	764	7
Losses on devaluation of bonds	114	1
Bond issuance costs	1,070	10
Lease-related expenses	9,366	89
Losses on foreign exchange transactions	56,982	539
Other	47,393	448
	¥223,464	$2,114

23. Other Expenses

Other expenses for the year ended March 31, 2004 consisted of the following:

Year ended March 31, 2004	Millions of yen	Millions of U.S. dollars
Write-off of loans	¥ 639,994	$ 6,056
Losses on sale of stocks and other securities	38,020	360
Losses on devaluation of stocks and other securities	18,233	172
Losses on money held in trust	962	9
Losses on sale of delinquent loans	266,752	2,524
Losses on disposal of premises and equipment	30,631	290
Amortization of unrecognized net transition obligation for employee retirement benefits	20,640	195
Transfer to reserve for contingent liabilities from securities transactions	212	2
Other	84,731	802
	¥1,100,179	$10,410

24. Income Taxes

(1) Significant components of deferred tax assets and liabilities at March 31, 2004 were as follows:

March 31, 2004	Millions of yen	Millions of U.S. dollars
Deferred tax assets:		
Net operating loss carryforwards	¥1,022,543	$ 9,675
Reserve for possible loan losses	526,076	4,977
Write-off of securities	348,619	3,298
Write-off of loans	286,808	2,714
Reserve for employee retirement benefits	91,426	865
Depreciation	8,122	77
Other	87,687	830
Subtotal	2,371,284	22,436
Valuation allowance	(437,924)	(4,143)
Total deferred tax assets	¥1,933,359	$18,293
Deferred tax liabilities:		
Net unrealized gains on other securities	¥ (222,213)	$ (2,103)
Leveraged lease	(50,522)	(478)
Gains on securities contributed to employee retirement benefits trust	(26,205)	(248)
Undistributed earnings of subsidiaries	(11,818)	(112)
Other	(15,477)	(146)
Total deferred tax liabilities	(326,236)	(3,087)
Net deferred tax assets	¥1,607,122	$15,206

(2) A reconciliation of the effective income tax rate reflected in the accompanying consolidated statement of income to the statutory tax rate for the year ended March 31, 2004 was as follows:

Statutory tax rate	38.62%
Valuation allowance	(23.05)
Change of the effective statutory tax rate due to the revision of the local tax law	(5.83)
Dividends exempted for income tax purposes	(1.74)
Other	(3.99)
Effective income tax rate	4.00%

(3) Amendment of deferred tax assets and deferred tax liabilities due to change in income tax rate was as follows:

"Revision of the Local Tax Law" (Legislation No. 9, 2003) was implemented on March 31, 2003. Because some local governments decided to apply a higher tax rate than the standard rate to the enterprise taxes during the fiscal year ended March 31, 2004, the statutory tax rate used in calculation of deferred tax assets and liabilities changed. As a result, "Deferred tax assets" and "Deferred tax liabilities" increased by ¥7,020 million ($66 million) and ¥0 million ($0 million), respectively and "Income taxes, deferred" for the year ended March 31, 2004 decreased by ¥7,889 million ($75 million). "Deferred tax assets for land revaluation" and "Deferred tax liabilities for land revaluation" increased by ¥3 million ($0 million) and ¥232 million ($2 million), respectively, and "Land revaluation excess" and "Net unrealized gains on other securities" decreased by ¥230 million ($2 million) and ¥906 million ($9 million), respectively. On a non-consolidated basis, SMBC's effective tax rate that SMBC uses for calculation of deferred tax assets and liabilities changed from 40.46% (used in the previous fiscal year) to 40.63%. Consequently, "Deferred tax assets" increased by ¥6,654 million ($63 million) and "Income taxes, deferred" decreased by ¥7,560 million ($72 million). In addition, "Deferred tax liabilities for land revaluation" increased by ¥232 million ($2 million) and "Land revaluation excess" decreased by the same amount and "Net unrealized gains on other securities" decreased by ¥905 million ($9 million).

25. Employee Retirement Benefits

(1) Outline of employee retirement benefits

SMBC and consolidated subsidiaries in Japan have contributory funded defined benefit pension plans such as contributory pension plans, qualified pension plans and lump-sum severance indemnity plans. They may grant additional benefits in cases where certain requirements are met when employees retire. SMBC received an approval from Minister of Health, Labor and Welfare for exemption from future retirement benefit obligations with respect to the entrusted portion of employee pension fund in the fiscal year ended March 31, 2004.

SMBC and some consolidated subsidiaries in Japan contributed certain marketable equity securities to an employee retirement benefit trust.

(2) Projected benefit obligation

March 31, 2004	Millions of yen	Millions of U.S. dollars
Projected benefit obligation(A)	¥ (873,416)	$(8,264)
Plan assets(B)	702,569	6,648
Unfunded projected benefit obligation(C)=(A)+(B)	(170,847)	(1,616)
Unrecognized net obligation from initial application of the new accounting standard(D)	17,168	162
Unrecognized net actuarial gain or loss(E)	212,714	2,013
Unrecognized prior service cost(F)	(77,559)	(734)
Net amount recorded on the consolidated balance sheet(G)=(C)+(D)+(E)+(F)	(18,524)	(175)
Prepaid pension cost (other assets)(H)	12,394	118
Reserve for employee retirement benefits(G)–(H)	¥ (30,918)	$ (293)

SMBC received the approval from the Minister of Health, Labor and Welfare for exemption from future retirement benefit obligations with respect to the entrusted portion of the employee pension fund, in accordance with the implementation of the "Defined benefit enterprise pension plan law" on January 26, 2004. As a result, SMBC applied the temporary treatment stipulated in Article 47-2 of "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)" (JICPA's Accounting Committee Report No. 13), and derecognized retirement benefit liabilities on the entrusted portion and plan assets equivalent to the amount to be returned on the day of approval.

The amount of expected return of plan assets (minimum legal reserves) was ¥184,014 million ($1,741 million) in the fiscal year ended March 31, 2004.

Plan assets related to the general type of welfare pension plan amounted to ¥24,754 million ($234 million) and were not included in the "Plan assets" shown above.

(3) Pension expenses

Year ended March 31, 2004	Millions of yen	Millions of U.S. dollars
Service cost	¥ 24,350	$ 230
Interest cost on projected benefit obligation	32,291	306
Expected return on plan assets	(22,973)	(217)
Amortization of unrecognized net obligation from initial application of the new accounting standard	20,640	195
Amortization of unrecognized net actuarial gain or loss	35,446	335
Amortization of unrecognized prior service cost	(6,422)	(61)
Other (non-recurring additional retirement allowance paid and other)	6,747	64
Pension expenses	¥ 90,079	$ 852
Gains on return of the entrusted portion of employee pension fund	(59,095)	(559)
Total	¥ 30,983	$ 293

(4) Assumptions

The principal assumptions used in determining benefit obligation and pension expenses at or for the year ended March 31, 2004 were as follows:

(a) Discount rate: 1.5% to 2.5%

(b) Expected rate of return on plan assets: 0% to 4.0%

(c) Allocation of estimated amount of retirement benefits:
Allocated to each period by the straight-line method

(d) Term to amortize unrecognized prior service costs: Mainly 10 years

(e) Term to amortize unrecognized net actuarial gain or loss: Mainly 10 years

(f) Term to amortize unrecognized net obligation from initial application of new accounting standard: Mainly 5 years

26. Lease Transactions

(1) Financing leases

(a) Lessee side

A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value for financing leases without transfer of ownership at March 31, 2004 was as follows:

	Millions of yen		
March 31, 2004	Equipment	Other	Total
Acquisition cost	¥23,447	¥1,071	¥24,518
Accumulated depreciation	14,071	645	14,716
Net book value	¥ 9,375	¥ 425	¥ 9,801

	Millions of U.S. dollars		
March 31, 2004	Equipment	Other	Total
Acquisition cost	$222	$10	$232
Accumulated depreciation	133	6	139
Net book value	$ 89	$ 4	$ 93

Future minimum lease payments excluding interests at March 31, 2004 were as follows:

March 31, 2004	Millions of yen	Millions of U.S. dollars
Due within one year	¥ 4,312	$41
Due after one year	6,074	57
	¥10,387	$98

Total lease expenses for the year ended March 31, 2004 were ¥5,651 million ($53 million). Assumed depreciation charges for the year ended March 31, 2004 amounted to ¥5,166 million ($49 million). Assumed depreciation charges is calculated using the straight-line method over the lease term of the respective assets without salvage values. The difference between the minimum lease payments and the acquisition costs of the lease assets represents interest expenses. The allocation of such interest expenses over the lease term is computed using the effective interest method. Interest expenses for the year ended March 31, 2004 amounted to ¥419 million ($4 million).

(b) Lessor side

March 31, 2004	Millions of yen		
	Equipment	Other	Total
Acquisition cost	¥39,609	¥2,096	¥41,706
Accumulated depreciation	23,054	1,043	24,097
Net book value	¥16,554	¥1,053	¥17,608

March 31, 2004	Millions of U.S. dollars		
	Equipment	Other	Total
Acquisition cost	$375	$20	$395
Accumulated depreciation	218	10	228
Net book value	$157	$10	$167

Future lease payments receivable excluding interests at March 31, 2004 were as follows:

March 31, 2004	Millions of yen	Millions of U.S. dollars
Due within one year	¥ 6,180	$ 58
Due after one year	12,448	118
	¥18,628	$176

Total lease income for the year ended March 31, 2004 was ¥7,641 million ($72 million). Depreciation charges for the year ended March 31, 2004 amounted to ¥6,385 million ($60 million). Interest income represents the difference between the additional amount of the lease payments receivable and estimated salvage values, and the acquisition costs of the lease assets. The allocation of such interest income over the lease term is computed using the effective interest method. Interest income for the year ended March 31, 2004 amounted to ¥1,024 million ($10 million).

(2) Operating leases

(a) Lessee side

Future minimum lease payments at March 31, 2004 were as follows:

March 31, 2004	Millions of yen	Millions of U.S. dollars
Due within one year	¥14,718	$139
Due after one year	74,020	701
	¥88,739	$840

(b) Lessor side

Future lease payments receivable at March 31, 2004 were as follows:

March 31, 2004	Millions of yen	Millions of U.S. dollars
Due within one year	¥ 323	$ 3
Due after one year	1,109	11
	¥1,433	$14

Future lease payments receivable of ¥3,132 million ($30 million) on the lessor side referred to in (1) and (2) above were pledged as collateral for borrowings at March 31, 2004.

27. Loan Commitments

Commitment line contracts on overdrafts and loans are agreements to lend to customers, up to a prescribed amount, as long as there is no violation of any condition established in the contracts. The amount of unused commitments was ¥30,246,177 million ($286,178 million), and the amount of unused commitments whose original contract terms are within one year or unconditionally cancelable at any time was ¥27,417,815 million ($259,417 million) at March 31, 2004.

Since many of these commitments are expected to expire without being drawn upon, the total amount of unused commitments does not necessarily represent actual future cash flow requirements. Many of these commitments include clauses under which SMBC and consolidated subsidiaries can reject an application from customers or reduce the contract amounts in the event that economic conditions change, SMBC and other consolidated subsidiaries need to secure claims, or other events occur. In addition, SMBC and other consolidated subsidiaries may request the customers to pledge collateral such as premises and securities at the time of the contracts, and take necessary measures such as monitoring the customers' financial positions, revising contracts when need arises and securing claims after the contracts are made.

28. Market Value of Marketable Securities

In addition to "Securities" in the consolidated balance sheet, trading securities, commercial paper and short-term corporate bonds classified as "Trading assets," negotiable certificates of deposit bought classified as "Deposits with banks," and commercial paper and beneficiary claim on loan trust classified as "Commercial paper and other debt purchased" are also included in the amounts of following tables.

(1) Securities

(i) Securities classified as trading purposes

As of and for the year ended March 31, 2004	Millions of yen	Millions of U.S. dollars
Consolidated balance sheet amount	¥1,170,727	$11,077
Valuation losses included in profit/loss during the year	1,707	16

(ii) Bonds classified as held-to-maturity

	Millions of yen				
March 31, 2004	**Consolidated balance sheet amount**	**Market Value**	**Net unrealized gains (losses)**	**Unrealized gains**	**Unrealized losses**
Japanese government bonds	¥509,458	¥500,930	¥(8,527)	¥1,739	¥10,266
Japanese local government bonds	—	—	—	—	—
Japanese corporate bonds	—	—	—	—	—
Other	16,230	17,331	1,101	1,101	—
Total	¥525,688	¥518,262	¥(7,425)	¥2,840	¥10,266

	Millions of U.S. dollars				
March 31, 2004	**Consolidated balance sheet amount**	**Market value**	**Net unrealized gains (losses)**	**Unrealized gains**	**Unrealized losses**
Japanese government bonds	$ 4,820	$ 4,740	$ (80)	$ 17	$ 97
Japanese local government bonds	—	—	—	—	—
Japanese corporate bonds	—	—	—	—	—
Other	154	164	10	10	—
Total	$ 4,974	$ 4,904	$ (70)	$ 27	$ 97

Note: Market value is calculated by using market prices at the fiscal year-end.

(iii) Other securities with market value

	Millions of yen				
March 31, 2004	**Acquisition cost**	**Consolidated balance sheet amount**	**Net unrealized gains (losses)**	**Unrealized gains**	**Unrealized losses**
Stocks	¥ 2,207,264	¥ 2,869,841	¥ 662,576	¥726,236	¥ 63,660
Bonds	¥15,604,771	¥15,501,515	¥(103,256)	¥ 18,590	¥121,847
Japanese government bonds	14,028,689	13,939,482	(89,207)	14,225	103,432
Japanese local government bonds	515,362	506,263	(9,098)	1,075	10,173
Japanese corporate bonds	1,060,720	1,055,769	(4,950)	3,289	8,240
Other	¥ 5,354,259	¥ 5,363,346	¥ 9,086	¥ 32,049	¥ 22,962
Total	¥23,166,296	¥23,734,703	¥ 568,407	¥776,877	¥208,470

	Millions of U.S. dollars				
March 31, 2004	**Acquisition cost**	**Consolidated balance sheet amount**	**Net unrealized gains (losses)**	**Unrealized gains**	**Unrealized losses**
Stocks	$ 20,884	$ 27,153	$6,269	$6,871	$ 602
Bonds	$147,647	$146,670	$ (977)	$ 176	$1,153
Japanese government bonds	132,735	131,891	(844)	135	979
Japanese local government bonds	4,876	4,790	(86)	10	96
Japanese corporate bonds	10,036	9,989	(47)	31	78
Other	$ 50,660	$ 50,746	$ 86	$ 303	$ 217
Total	$219,191	$224,569	$5,378	$7,350	$1,972

Notes: 1. Market value is calculated as follows:

Stocks	Average market price during one month before the fiscal year-end
Bonds and other	Market price at the fiscal year-end

2. Of the total net unrealized gains shown above, ¥23,452 million ($222 million) is included in this fiscal year's profit because of the application of fair value hedge accounting.
3. Other securities with market value are considered as impaired if the market value decreases materially below the acquisition cost and such decline is not considered as recoverable. The market value is recognized as the consolidated balance sheet amount and the amount of write-down is accounted for as valuation loss (impaired) for this fiscal year. Valuation loss for this fiscal year was ¥5,609 million ($53 million). The rule for determining "material decline" is as follows and is based on the classification of issuing company under self-assessment of assets.

Bankrupt/Effectively bankrupt/Potentially bankrupt issuers	: Market value is lower than acquisition cost.
Issuers requiring caution	: Market value is 30% or more lower than acquisition cost.
Normal issuers	: Market value is 50% or more lower than acquisition cost.

Bankrupt issuers: Issuers that are legally bankrupt or formally declared bankrupt.
Effectively bankrupt issuers: Issuers that are not legally bankrupt but regarded as substantially bankrupt.
Potentially bankrupt issuers: Issuers that are perceived to have a high risk of falling into bankruptcy.
Issuers requiring caution; Issuers that are identified for close monitoring.
Normal issuers: Issuers other than the above four categories of issuers.

(iv) Held-to-maturity bonds sold during the year ended March 31, 2004

	Millions of yen			Millions of U.S. dollars		
Year ended March 31, 2004	**Acquisition cost**	**Sales amount**	**Gains on sales**	**Acquisition cost**	**Sales amount**	**Gains on sales**
Japanese government bonds	¥21,063	¥21,709	¥ 645	$199	$205	$ 6
Japanese local government bonds	23,060	23,796	736	218	225	7
Total	¥44,123	¥45,506	¥1,382	$417	$430	$13

Reason for sales:

A consolidated subsidiary, THE MINATO BANK, LTD. ("Minato") changed its investment policy.

(v) Other securities sold during the year ended March 31, 2004

Year ended March 31, 2004	**Millions of yen**	**Millions of U.S. dollars**
Sales amount	¥30,635,387	$289,861
Gains on sales	282,272	2,671
Losses on sales	153,848	1,456

(vi) Securities with no available market value

	Millions of yen	Millions of U.S. dollars
March 31, 2004	**Consolidated balance sheet amount**	**Consolidated balance sheet amount**
Bonds classified as held-to-maturity		
Unlisted foreign securities	¥ 218	$ 2
Other	10,413	99
Other securities		
Unlisted stocks except for OTC stocks	¥ 583,431	$ 5,520
Unlisted bonds	1,596,199	15,103
Unlisted foreign securities	314,127	2,972
Other	134,350	1,271

(vii) Change of classification of securities

During this fiscal year, Minato changed its investment policy and sold some of the held-to-maturity bonds before their maturities. As a result, Minato changed the classification of the remaining bonds that Minato holds, ¥28,281 million ($268 million), from "held-to-maturity" to "other securities" pursuant to Article 83 of the

"Practical Guidelines for Accounting for Financial Instruments" (JICPA Accounting Committee Report No. 14). In addition, ¥12,063 million ($114 million) in reclassified bonds were sold during this fiscal year and net gains on sale of ¥18 million ($0 million) were recorded.

As a result of this change of classification, "Securities" increased by ¥35 million ($0 million) and "Deferred tax assets" decreased by ¥14 million ($0 million), and "Minority interests" and "Net unrealized gains on other securities" increased by ¥19 million ($0 million) and ¥1 million ($0 million), respectively, compared with the former classification of bonds.

(viii) Redemption schedule of other securities with maturities and held-to-maturity bonds

	Millions of yen			
March 31, 2004	**1 year or less**	**More than 1 year to 5 years**	**More than 5 years to 10 years**	**Over 10 years**
Bonds	¥2,879,079	¥ 9,470,889	¥3,999,979	¥1,257,227
Japanese government bonds	2,706,787	7,223,369	3,266,491	1,252,292
Japanese local government bonds	7,759	263,194	234,789	519
Japanese corporate bonds	164,531	1,984,324	498,698	4,415
Other	¥ 439,992	¥ 4,210,623	¥ 457,429	¥ 538,094
Total	¥3,319,072	¥13,681,513	¥4,457,409	¥1,795,322

	Millions of U.S. dollars			
March 31, 2004	**1 year or less**	**More than 1 year to 5 years**	**More than 5 years to 10 years**	**Over 10 years**
Bonds	$ 27,241	$ 89,610	$ 37,846	$ 11,896
Japanese government bonds	25,611	68,345	30,906	11,849
Japanese local government bonds	73	2,490	2,221	5
Japanese corporate bonds	1,557	18,775	4,719	42
Other	$ 4,163	$ 39,839	$ 4,328	$ 5,091
Total	$ 31,404	$ 129,449	$ 42,174	$ 16,987

(2) Money held in trust

(i) Money held in trust classified as trading purposes

There are no corresponding transactions.

(ii) Money held in trust classified as held-to-maturity

There are no corresponding transactions.

(iii) Other money held in trust

	Millions of yen				
March 31, 2004	**Acquisition cost**	**Consolidated balance sheet amount**	**Net unrealized gains**	**Unrealized gains**	**Unrealized losses**
Other money held in trust	¥3,628	¥3,749	¥121	¥222	¥100

	Millions of U.S. dollars				
March 31, 2004	**Acquisition cost**	**Consolidated balance sheet amount**	**Net unrealized gains**	**Unrealized gains**	**Unrealized losses**
Other money held in trust	$34	$35	$1	$2	$1

(3) Net unrealized gains on other securities and other money held in trust

March 31, 2004	Millions of yen	Millions of U.S. dollars
Net unrealized gains	¥ 545,075	$ 5,157
Other securities	544,953	5,156
Other money held in trust	121	1
(–) Deferred tax liabilities	222,115	2,101
Net unrealized gains on other securities (before following adjustment)	¥ 322,959	$ 3,056
(–) Minority interests	¥ 3,467	$ 33
(+) SMFG's interest in net unrealized gains on valuation of other securities held by affiliates accounted for by the equity method	287	3
Net unrealized gains on other securities	¥ 319,780	$ 3,026

Notes: 1. Of the total net unrealized gains shown above, ¥23,452 million ($222 million) is included in this fiscal year's profit because of the application of fair value hedge accounting.

2. Net unrealized gains included foreign currency translation adjustments on non-marketable securities denominated in foreign currency.

29. Derivative Transactions

(1) Interest rate derivatives

	Millions of yen			
	Contract amount		Market	Valuation
March 31, 2004	Total	Over 1 year	value	gains (losses)
Transactions listed on exchange				
Interest rate futures:				
Sold	¥ 87,393,679	¥ 2,662,913	¥ (111,937)	¥ (111,937)
Bought	91,880,414	3,624,247	110,424	110,424
Interest rate options:				
Sold	¥ 554,768	¥ 267,333	¥ (218)	¥ (218)
Bought	984,778	267,333	241	241
Over-the-counter transactions				
Forward rate agreements:				
Sold	¥ 3,576,364	¥ 430,000	¥ 952	¥ 952
Bought	13,028,083	1,640,000	(2,001)	(2,001)
Interest rate swaps:	¥385,010,824	¥290,122,316	¥ 235,969	¥ 235,969
Receivable fixed rate/payable floating rate	184,435,337	138,971,508	1,624,354	1,624,354
Receivable floating rate/payable fixed rate	178,700,873	135,278,747	(1,380,548)	(1,380,548)
Receivable floating rate/payable floating rate	21,727,688	15,792,166	518	518
Swaptions:				
Sold	¥ 2,224,743	¥ 968,959	¥ (37,880)	¥ (37,880)
Bought	2,589,152	1,173,273	41,346	41,346
Caps:				
Sold	¥ 5,408,280	¥ 3,469,422	¥ (6,543)	¥ (6,543)
Bought	3,602,677	2,345,784	5,628	5,628
Floors:				
Sold	¥ 224,688	¥ 190,319	¥ (5,321)	¥ (5,321)
Bought	302,366	240,371	5,040	5,040
Other:				
Sold	¥ —	¥ —	¥ —	¥ —
Bought	306,408	72,854	4,402	4,402
Total			¥ 240,101	¥ 240,101

	Millions of U.S. dollars			
	Contract amount		Market value	Valuation gains (losses)
March 31, 2004	Total	Over 1 year		
Transactions listed on exchange				
Interest rate futures:				
Sold	$ 826,887	$ 25,196	$ (1,059)	$ (1,059)
Bought	869,339	34,291	1,045	1,045
Interest rate options:				
Sold	$ 5,249	$ 2,529	$ (2)	$ (2)
Bought	9,318	2,529	2	2
Over-the-counter transactions				
Forward rate agreements:				
Sold	$ 33,838	$ 4,069	$ 9	$ 9
Bought	123,267	15,517	(19)	(19)
Interest rate swaps:	$3,642,831	$2,745,031	$ 2,233	$ 2,233
Receivable fixed rate/payable floating rate	1,745,059	1,314,897	15,369	15,369
Receivable floating rate/payable fixed rate	1,690,802	1,279,958	(13,062)	(13,062)
Receivable floating rate/payable floating rate	205,579	149,420	5	5
Swaptions:				
Sold	$ 21,050	$ 9,168	$ (358)	$ (358)
Bought	24,498	11,101	391	391
Caps:				
Sold	$ 51,171	$ 32,826	$ (62)	$ (62)
Bought	34,087	22,195	53	53
Floors:				
Sold	$ 2,126	$ 1,801	$ (50)	$ (50)
Bought	2,861	2,274	48	48
Other:				
Sold	$ —	$ —	$ —	$ —
Bought	2,899	689	41	41
Total			$ 2,272	$ 2,272

Notes: 1. The above transactions are valuated at market value and the valuation gains (losses) are accounted for in the consolidated statement of income. Derivative transactions to which deferred hedge accounting method is applied are not included in the amounts above. Some consolidated overseas subsidiaries account for interest rate derivatives in accordance with local accounting standards. Such transactions are not included in the amounts above, of which their net unrealized gains amount to ¥17 million ($0 million).

2. Market value of transactions listed on exchange is calculated mainly using the closing prices on the Tokyo International Financial Futures Exchange and others.

Market value of OTC transactions is calculated mainly using discounted present value and option pricing models.

(2) Currency derivatives

March 31, 2004	Millions of yen: Contract amount Total	Millions of yen: Contract amount Over 1 year	Millions of yen: Market value	Millions of yen: Valuation gains (losses)
Over-the-counter transactions				
Currency swaps	¥16,317,980	¥10,396,658	¥ 82,675	¥131,136
Currency swaptions				
Sold	646,230	623,671	(16,259)	(16,259)
Bought	1,135,123	1,112,563	40,495	40,495
Forward foreign exchange	¥33,748,772	¥ 1,368,595	¥(38,814)	¥(38,814)
Currency options				
Sold	¥ 2,911,936	¥ 898,824	¥(90,113)	¥(90,113)
Bought	2,883,999	907,272	107,026	107,026
Other				
Sold	¥ 7,957	¥ 882	¥ 51	¥ 51
Bought	—	—	—	—
Total			¥ 85,060	¥133,521

March 31, 2004	Millions of U.S. dollars: Contract amount Total	Millions of U.S. dollars: Contract amount Over 1 year	Millions of U.S. dollars: Market value	Millions of U.S. dollars: Valuation gains (losses)
Over-the-counter transactions				
Currency swaps	$ 154,395	$ 98,369	$ 782	$ 1,240
Currency swaptions				
Sold	6,114	5,901	(154)	(154)
Bought	10,740	10,527	383	383
Forward foreign exchange	$ 319,318	$ 12,949	$ (367)	$ (367)
Currency options				
Sold	$ 27,552	$ 8,504	$ (852)	$ (852)
Bought	27,287	8,584	1,013	1,013
Other				
Sold	$ 75	$ 8	$ 0	$ 0
Bought	—	—	—	—
Total			$ 805	$ 1,263

Notes: 1. The above transactions are valuated at market value and the valuation gains (losses) are accounted for in the consolidated statement of income. The amounts above do not include the following:

(a) Derivative transactions to which the deferred hedge accounting method is applied;

(b) Those that are allotted to financial assets/liabilities denominated in foreign currency and whose market values are already reflected to the consolidated balance sheet; and

(c) Those that are allotted to financial assets/liabilities denominated in foreign currency and the financial assets/liabilities are eliminated in the process of consolidation.

Some consolidated overseas subsidiaries account for currency derivatives in accordance with local accounting standards. Such transactions are not included in the amounts above, of which their net unrealized losses amount to ¥530 million ($5 million).

2. Market value is calculated mainly using discounted present value.

3. Forward foreign exchange and currency options that were formerly revaluated at the fiscal year-end are included in the table above from the fiscal year ended March 31, 2004.

(3) Equity derivatives

	Millions of yen			
	Contract amount		Market value	Valuation gains (losses)
March 31, 2004	Total	Over 1 year		
Transactions listed on exchange				
Stock price index futures:				
Sold	¥ —	¥ —	¥ —	¥ —
Bought	3,349	—	63	63
Stock price index options:				
Sold	¥ —	¥ —	¥ —	¥ —
Bought	—	—	—	—
Over-the-counter transactions				
Equity options:				
Sold	¥ —	¥ —	¥ —	¥ —
Bought	—	—	—	—
Stock price index swaps:				
Receivable equity index/payable floating rate	¥ —	¥ —	¥ —	¥ —
Receivable floating rate/payable equity index	—	—	—	—
Other:				
Sold	¥4,791	¥ —	¥(231)	¥(231)
Bought	7,336	3,005	311	311
Total			¥ 143	¥ 143

	Millions of U.S. dollars			
	Contract amount		Market value	Valuation gains (losses)
March 31, 2004	Total	Over 1 year		
Transactions listed on exchange				
Stock price index futures:				
Sold	$ —	$ —	$ —	$ —
Bought	32	—	0	0
Stock price index options:				
Sold	$ —	$ —	$ —	$ —
Bought	—	—	—	—
Over-the-counter transactions				
Equity options:				
Sold	$ —	$ —	$ —	$ —
Bought	—	—	—	—
Stock price index swaps:				
Receivable equity index/payable floating rate	$ —	$ —	$ —	$ —
Receivable floating rate/payable equity index	—	—	—	—
Other:				
Sold	$ 45	$ —	$ (2)	$ (2)
Bought	69	28	3	3
Total			$ 1	$ 1

Notes: 1. The above transactions are valuated at market value and the valuation gains (losses) are accounted for in the consolidated statement of income. Derivative transactions to which the deferred hedge accounting method is applied are not included in the amounts above.

2. Market value of transactions listed on exchange is calculated mainly using the closing prices on the Tokyo Stock Exchange. Market value of OTC transactions is calculated mainly using discounted present value and option pricing models.

(4) Bond derivatives

	Millions of yen			
	Contract amount			
March 31, 2004	Total	Over 1 year	Market value	Valuation gains (losses)
Transactions listed on exchange				
Bond futures:				
Sold	¥1,485,848	¥ —	¥ 5,213	¥ 5,213
Bought	3,473,003	—	(16,918)	(16,918)
Bond futures options:				
Sold	¥ 333,500	¥ —	¥ (769)	¥ (769)
Bought	5,000	—	66	66
Over-the-counter transactions				
Forward bond agreements:				
Sold	¥ 296,334	¥273,251	¥ 1,746	¥ 1,746
Bought	—	—	—	—
Bond options:				
Sold	¥2,821,954	¥ 14,114	¥ (6,020)	¥ (6,020)
Bought	2,420,812	2,972	18,216	18,216
Total			¥ 1,533	¥ 1,533

	Millions of U.S. dollars			
	Contract amount			
March 31, 2004	Total	Over 1 year	Market value	Valuation gains (losses)
Transactions listed on exchange				
Bond futures:				
Sold	$14,059	$ —	$ 49	$ 49
Bought	32,860	—	(160)	(160)
Bond futures options:				
Sold	$ 3,155	$ —	$ (7)	$ (7)
Bought	47	—	1	1
Over-the-counter transactions				
Forward bond agreements:				
Sold	$ 2,804	$2,585	$ 17	$ 17
Bought	—	—	—	—
Bond options:				
Sold	$26,700	$ 134	$ (57)	$ (57)
Bought	22,905	28	172	172
Total			$ 15	$ 15

Notes: 1. The above transactions are valuated at market value and the valuation gains (losses) are accounted for in the consolidated statement of income. Derivative transactions to which the deferred hedge accounting method is applied are not included in the amounts above.

2. Market value of transactions listed on exchange is calculated mainly using the closing prices on the Tokyo Stock Exchange. Market value of OTC transactions is calculated mainly using option pricing models.

(5) Commodity derivatives

	Millions of yen			
	Contract amount		Market value	Valuation gains (losses)
March 31, 2004	Total	Over 1 year		
Over-the-counter transactions				
Commodity swaps:				
Receivable fixed price/payable floating price	¥86,127	¥84,270	¥(5,742)	¥(5,742)
Receivable floating price/payable fixed price	87,038	84,985	9,932	9,932
Commodity options:				
Sold	¥ 4,457	¥ 4,318	¥(1,645)	¥(1,645)
Bought	4,448	4,309	1,667	1,667
Total			¥ 4,211	¥ 4,211

	Millions of U.S. dollars			
	Contract amount		Market value	Valuation gains (losses)
March 31, 2004	Total	Over 1 year		
Over-the-counter transactions				
Commodity swaps:				
Receivable fixed price/payable floating price	$815	$797	$(54)	$(54)
Receivable floating price/payable fixed price	824	804	94	94
Commodity options:				
Sold	$ 42	$ 41	$(16)	$(16)
Bought	42	41	16	16
Total			$ 40	$ 40

Notes: 1. The above transactions are valuated at market value and the valuation gains (losses) are accounted for in the consolidated statement of income. Derivative transactions to which the deferred hedge accounting method is applied are not included in the amounts above.

2. Market value is calculated based on factors such as price of the relevant commodity and contract term.

3. Commodity derivatives are transactions on fuel and metal.

(6) Credit derivative transactions

	Millions of yen			
	Contract amount		Market value	Valuation gains (losses)
March 31, 2004	Total	Over 1 year		
Over-the-counter transactions				
Credit default options:				
Sold	¥38,891	¥36,213	¥ (826)	¥ (826)
Bought	57,308	52,627	1,580	1,580
Other:				
Sold	¥ 1,504	¥ —	¥ (23)	¥ (23)
Bought	1,389	—	27	27
Total			¥ 757	¥ 757

	Millions of U.S. dollars			
	Contract amount			
March 31, 2004	Total	Over 1 year	Market value	Valuation gains (losses)
Over-the-counter transactions				
Credit default options:				
Sold	$368	$343	$ (8)	$ (8)
Bought	542	498	15	15
Other:				
Sold	$ 14	$ —	$ (0)	$ (0)
Bought	13	—	0	0
Total			$ 7	$ 7

Notes: 1. The above transactions are valuated at market value and the valuation gains (losses) are accounted for in the consolidated statement of income. Derivative transactions to which the deferred hedge accounting method is applied are not included in the amounts above.

2. Market value is calculated based on factors such as the price of the reference assets and contract term.

3. "Sold" represents transactions in which the credit risk is accepted; "Bought" represents transactions in which the credit risk is transferred.

30. Segment Information

(1) Business segment information

	Millions of yen				
Year ended March 31, 2004	Banking business	Other	Total	Elimination and unallocated corporate assets	Consolidated
I. Ordinary income					
(1) External customers	¥ 2,501,868	¥ 215,136	¥ 2,717,005	¥ —	¥ 2,717,005
(2) Intersegment	20,178	138,173	158,352	(158,352)	—
Total	¥ 2,522,047	¥ 353,310	¥ 2,875,357	¥ (158,352)	¥ 2,717,005
Ordinary expenses	2,293,056	291,978	2,585,035	(150,189)	2,434,845
Ordinary profit	¥ 228,990	¥ 61,332	¥ 290,322	¥ (8,162)	¥ 282,159
II. Assets, depreciation and capital expenditure					
Assets	¥98,935,965	¥4,958,057	¥103,894,022	¥(4,050,764)	¥99,843,258
Depreciation	59,938	12,989	72,927	—	72,927
Capital expenditure	86,480	19,693	106,174	—	106,174

	Millions of U.S. dollars				
Year ended March 31, 2004	Banking business	Other	Total	Elimination and unallocated corporate assets	Consolidated
I. Ordinary income					
(1) External customers	$ 23,672	$ 2,036	$ 25,708	$ —	$ 25,708
(2) Intersegment	191	1,307	1,498	(1,498)	—
Total	$ 23,863	$ 3,343	$ 27,206	$ (1,498)	$ 25,708
Ordinary expenses	21,696	2,763	24,459	(1,421)	23,038
Ordinary profit	$ 2,167	$ 580	$ 2,747	$ (77)	$ 2,670
II. Assets, depreciation and capital expenditure					
Assets	$936,096	$46,911	$983,007	$(38,327)	$944,680
Depreciation	567	123	690	—	690
Capital expenditure	818	187	1,005	—	1,005

Notes: 1. The business segmentation is classified based on SMBC's internal administrative purpose.

2. ''Other'' includes leasing, securities, credit card, investment banking, loans, venture capital, system development and information processing.

3. Ordinary income represents total income excluding gains on disposal of premises and equipment, collection of written-off claims, gain on sale of business operation and reversals of other reserves. Ordinary expenses represent total expenses excluding losses on disposal of premises and equipment, amortized cost of unrecognized net transition obligation for employee retirement benefits and other extraordinary expenses.

4. As mentioned in ''2. Significant Accounting Policies (3) Trading assets/liabilities and trading profits/losses,'' SMBC formerly accounted for foreign currency translation differences arising from currency swaps for trading purposes as ''Other assets'' or ''Other liabilities'' on the balance sheet on a net basis. From this fiscal year, SMBC accounts for such foreign currency translation differences as ''Trading assets'' and ''Trading liabilities'' on a gross basis, pursuant to the ''Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry'' (JICPA Industry Audit Committee Report No. 25). Consequently, Assets of ''Banking business'' increased by ¥19,741 million ($187 million) as compared with the former manner.

5. As mentioned in ''2. Significant Accounting Policies (16) Translation of foreign currencies,'' as for the accounting method of foreign currency transactions, in the previous fiscal year, SMBC and domestic consolidated banking subsidiaries applied the temporary treatment stipulated in JICPA Industry Audit Committee Report No. 25 to currency swaps and foreign exchange swaps for the purpose of lending or borrowing funds in different currencies. From this fiscal year, they apply the hedge accounting pursuant to the basic provisions of JICPA Industry Audit Committee Report No. 25.

   Consequently, for this fiscal year, SMBC and domestic consolidated banking subsidiaries have valuated such foreign exchange swaps at fair value and included their fair-valued assets and liabilities in the consolidated balance sheet. Previously, profits or losses on the foreign exchange swaps were charged to income by periodical allocation. As a result, Assets of ''Banking business'' increased by ¥1,035 million ($10 million) as compared with the former manner.

   Foreign currency translation differences arising from currency swaps and forward foreign exchange transactions were formerly accounted for as ''Other assets'' or ''Other liabilities'' on a net basis, but from this fiscal year they are accounted for as ''Other assets'' or ''Other liabilities'' on a gross basis pursuant to JICPA Industry Audit Committee Report No. 25. Consequently, Assets of ''Banking business'' increased by ¥450,929 million ($4,267 million) as compared with the former manner.

6. As mentioned in ''2. Significant Accounting Policies (6) Hedge accounting,'' as for the hedge accounting method applied to hedging transactions for interest rate risk arising from financial assets and liabilities, SMBC formerly applied deferred hedge accounting. From this fiscal year, SMBC applies fair value hedge accounting to hedging transactions for reducing the exposure to market volatility of bonds classified as other securities that are held for the purpose of Asset and Liability Management in order to more properly reflect the effectiveness of hedging transactions in the financial statements. Consequently, Assets of ''Banking business'' decreased by ¥19,420 million ($184 million).

7. As mentioned in Note 24 ''Income Taxes'', the effective tax rate used in calculating deferred tax assets and liabilities was changed with the implementation of the ''Revision of the Local Tax Law'' (Legislation No. 9, 2003) on March 31, 2003. As a result, Assets of ''Banking business'' and Assets of ''Other'' increased by ¥6,657 million ($63 million) and ¥365 million ($3 million), respectively, as compared with the assets that were calculated using the former effective tax rate.

8. ''Leasing'' that was formerly reported separately is included in ''Other'' from this fiscal year because leasing business has become less material. Business segmentation information under which the former classification is applied is as follows:

	Millions of yen					
Year ended March 31, 2004	**Banking business**	**Leasing**	**Other**	**Total**	**Elimination and unallocated corporate assets**	**Consolidated**
I. Ordinary income						
(1) External customers	¥ 2,501,868	¥ 14,773	¥ 200,363	¥ 2,717,005	¥ —	¥ 2,717,005
(2) Intersegment	20,178	3,326	137,995	161,499	(161,499)	—
Total	¥ 2,522,047	¥ 18,099	¥ 338,358	¥ 2,878,505	¥ (161,499)	¥ 2,717,005
Ordinary expenses	2,293,056	14,968	277,013	2,585,038	(150,192)	2,434,845
Ordinary profit (loss)	¥ 228,990	¥ 3,131	¥ 61,345	¥ 293,467	¥ (11,307)	¥ 282,159
II. Assets, depreciation and capital expenditure						
Assets	¥98,935,965	¥126,264	¥4,831,808	¥103,894,039	¥(4,050,780)	¥99,843,258
Depreciation	59,938	6,754	6,234	72,927	—	72,927
Capital expenditure	86,480	10,877	8,816	106,174	—	106,174

Year ended March 31, 2004	Banking business	Leasing	Other	Total	Elimination and unallocated corporate assets	Consolidated
	Millions of U.S. dollars					
I. Ordinary income						
(1) External customers	$ 23,672	$ 140	$ 1,895	$ 25,708	$ —	$ 25,708
(2) Intersegment	191	31	1,306	1,528	(1,528)	—
Total	$ 23,863	$ 171	$ 3,201	$ 27,236	$ (1,528)	$ 25,708
Ordinary expenses	21,696	141	2,621	24,458	(1,420)	23,038
Ordinary profit (loss)	$ 2,167	$ 30	$ 580	$ 2,778	$ (108)	$ 2,670
II. Assets, depreciation and capital expenditure						
Assets	$ 936,096	$ 1,195	$ 45,716	$ 983,007	$ (38,327)	$ 944,680
Depreciation	567	64	59	690	—	690
Capital expenditure	818	103	84	1,005	—	1,005

(2) Geographic segment information

Year ended March 31, 2004	Japan	The Americas	Europe	Asia and Oceania	Total	Elimination and unallocated corporate assets	Consolidated
	Millions of yen						
I. Ordinary income							
(1) External customers	¥ 2,414,609	¥ 135,858	¥ 75,563	¥ 90,973	¥ 2,717,005	¥ —	¥ 2,717,005
(2) Intersegment	49,587	39,179	6,116	10,968	105,851	(105,851)	—
Total	¥ 2,464,196	¥ 175,038	¥ 81,680	¥ 101,942	¥ 2,822,857	¥ (105,851)	¥ 2,717,005
Ordinary expenses	2,295,260	110,012	65,586	59,397	2,530,256	(95,410)	2,434,845
Ordinary profit	¥ 168,936	¥ 65,025	¥ 16,093	¥ 42,545	¥ 292,600	¥ (10,440)	¥ 282,159
II. Assets	¥92,812,738	¥5,117,029	¥2,177,644	¥2,734,684	¥102,842,096	¥(2,998,838)	¥99,843,258

Year ended March 31, 2004	Japan	The Americas	Europe	Asia and Oceania	Total	Elimination and unallocated corporate assets	Consolidated
	Millions of U.S. dollars						
I. Ordinary income							
(1) External customers	$ 22,846	$ 1,285	$ 715	$ 861	$ 25,708	$ —	$ 25,708
(2) Intersegment	469	371	58	104	1,002	(1,002)	—
Total	$ 23,315	$ 1,656	$ 773	$ 965	$ 26,710	$ (1,002)	$ 25,708
Ordinary expenses	21,717	1,041	621	562	23,941	(903)	23,038
Ordinary profit	$ 1,598	$ 615	$ 152	$ 403	$ 2,769	$ (99)	$ 2,670
II. Assets	$878,160	$48,415	$20,604	$25,875	$973,054	$(28,374)	$944,680

Notes: 1. The geographic segmentation is classified based on the degrees of following factors: geographic proximity, similarity of economic activities and relationship of business activities among regions.

Ordinary income and ordinary profit are presented as counterparts of sales and operating profit of companies in other industries.

2. The Americas includes the United States, Brazil, Canada and others; Europe includes the United Kingdom, Germany, France and others; Asia and Oceania includes Hong Kong, Singapore, Australia and others except Japan.

3. Ordinary income represents total income excluding gains on disposal of premises and equipment, collection of written-off claims, gain on sale of business operation and reversals of other reserves. Ordinary expenses represent total expenses excluding losses on disposal of premises and equipment, amortized cost of unrecognized net transition obligation for employee retirement benefits and other extraordinary expenses.

4. As mentioned in ‘‘2. Significant Accounting Policies (3) Trading assets/liabilities and trading profits/losses,’’ SMBC formerly accounted for foreign currency translation differences arising from currency swaps for trading purposes as ‘‘Other assets’’ or ‘‘Other liabilities’’ on the balance sheet on a net basis. From this fiscal year, SMBC accounts for such foreign currency translation differences as ‘‘Trading assets’’ and ‘‘Trading liabilities’’ on a gross basis, pursuant to the ‘‘Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry’’ (JICPA Industry Audit

Committee Report No. 25). Consequently, Assets of "Japan" increased by ¥19,939 million ($189 million) and Assets of "Asia and Oceania" decreased by ¥198 million ($2 million) as compared with the former manner.

5. As mentioned in "2. Significant Accounting Policies (16) Translation of foreign currencies," as for the accounting method of foreign currency transactions, in the previous fiscal year, SMBC and domestic consolidated banking subsidiaries applied the temporary treatment stipulated in JICPA Industry Audit Committee Report No. 25 to currency swaps and foreign exchange swaps for the purpose of lending or borrowing funds in different currencies. From this fiscal year, they apply the hedge accounting pursuant to the basic provisions of JICPA Industry Audit Committee Report No. 25.

   Consequently, for this fiscal year, SMBC and domestic consolidated banking subsidiaries have valuated such foreign exchange swaps at fair value and included their fair-valued assets and liabilities in the consolidated balance sheet. Previously, profits or losses on the foreign exchange swaps were charged to income by periodical allocation. As a result, Assets of "Japan" and "Asia and Oceania" increased by ¥4 million ($0 million) and ¥1,030 million ($10 million), respectively, as compared with the former manner.

   Foreign currency translation differences arising from currency swaps and forward foreign exchange transactions were formerly accounted for as "Other assets" or "Other liabilities" on a net basis, but from this fiscal year they are accounted for as "Other assets" or "Other liabilities" on a gross basis pursuant to JICPA Industry Audit Committee Report No. 25. Consequently, Assets of "Japan," "The Americas," "Europe" and "Asia and Oceania" increased by ¥279,156 million ($2,641 million), ¥114,960 million ($1,088 million), ¥1,554 million ($15 million) and ¥55,257 million ($523 million), respectively, as compared with the former manner.

6. As mentioned in "2. Significant Accounting Policies (6) Hedge accounting," as for the hedge accounting method applied to hedging transactions for interest rate risk arising from financial assets and liabilities, SMBC formerly applied deferred hedge accounting. From this fiscal year, SMBC applies fair value hedge accounting to hedging transactions for reducing the exposure to market volatility of bonds classified as other securities that are held for the purpose of Asset and Liability Management in order to more properly reflect the effectiveness of hedging transactions in the financial statements. Consequently, Assets of "Japan" decreased by ¥19,420 million ($184 million).

7. As mentioned in Note 24 "Income Taxes", the effective tax rate used in calculating deferred tax assets and liabilities was changed with the implementation of the "Revision of the Local Tax Law" (Legislation No. 9, 2003) on March 31, 2003. As a result, Assets of "Japan" increased by ¥7,023 million ($66 million) as compared with assets that were calculated using the former effective tax rate.

(3) Ordinary income from overseas operations

Year ended March 31, 2004	Millions of yen	Millions of U.S. dollars
Ordinary income from overseas operations (A)	¥ 302,396	$ 2,861
Consolidated ordinary income (B)	2,717,005	25,707
(A)/(B)	11.1%	11.1%

Note: The above table shows ordinary income from transactions of SMBC's overseas branches and overseas consolidated subsidiaries, excluding internal income.

31. Subsequent Event

Appropriations of retained earnings

The following appropriation of retained earnings of SMBC at March 31, 2004 was approved by all of the shareholders on June 29, 2004:

	Millions of yen	Millions of U.S. dollars
Cash dividends, ¥3,649 per share on common stock	¥200,008	$1,892

32. Parent Company

(1) Nonconsolidated Balance Sheet

Sumitomo Mitsui Banking Corporation

March 31, 2004	Millions of yen	Millions of U.S. dollars (Note 1)
Assets		
Cash and due from banks	¥ 3,355,519	$ 31,749
Deposits with banks	1,511,401	14,300
Call loans and bills bought	287,262	2,718
Receivables under resale agreements	130,337	1,233
Receivables under securities borrowing transactions	1,009,328	9,550
Commercial paper and other debt purchased	133,081	1,259
Trading assets	2,958,990	27,997
Money held in trust	3,749	36
Securities	26,592,584	251,609
Loans and bills discounted	50,810,144	480,747
Foreign exchanges	720,840	6,820
Other assets	1,480,776	14,011
Premises and equipment	688,325	6,513
Deferred tax assets	1,590,518	15,049
Customers' liabilities for acceptances and guarantees	4,086,964	38,669
Reserve for possible loan losses	(1,250,751)	(11,834)
Total assets	**¥94,109,074**	**$890,426**
Liabilities		
Deposits	¥63,656,771	$602,297
Call money and bills sold	6,204,833	58,708
Payables under repurchase agreements	1,071,114	10,134
Payables under securities lending transactions	5,946,346	56,262
Trading liabilities	1,504,465	14,235
Borrowed money	2,531,973	23,957
Foreign exchanges	576,958	5,459
Bonds	3,177,741	30,067
Due to trust account	36,032	341
Other liabilities	2,368,824	22,413
Reserve for employee bonuses	8,752	83
Reserve for employee retirement benefits	11,748	111
Reserve for expenses related to EXPO 2005 Japan	116	1
Other reserves	18	0
Deferred tax liabilities for land revaluation	55,541	526
Acceptances and guarantees	4,086,964	38,669
Total liabilities	**¥91,238,204**	**$863,263**
Stockholders' equity		
Capital stock	¥ 559,985	$ 5,298
Capital surplus	1,237,307	11,707
Retained earnings	676,064	6,397
Land revaluation excess	81,158	768
Net unrealized gains on other securities	316,354	2,993
Total stockholders' equity	**¥ 2,870,870**	**$ 27,163**
Total liabilities and stockholders' equity	**¥94,109,074**	**$890,426**

(2) Nonconsolidated Statement of Income

Sumitomo Mitsui Banking Corporation

	Year ended March 31, 2004	
	Millions of yen	Millions of U.S. dollars (Note 1)
Income		
Interest income:		
Interest on loans and discounts	¥ 975,130	$ 9,226
Interest and dividends on securities	249,594	2,362
Interest on receivables under resale agreements	818	8
Interest on receivables under securities borrowing transactions	104	1
Interest on deposits with banks	11,167	106
Other interest income	155,507	1,471
Trust fees	334	3
Fees and commissions	322,075	3,047
Trading profits	283,611	2,684
Other operating income	149,209	1,412
Other income	341,633	3,232
Total income	**¥2,489,187**	**$23,552**
Expenses		
Interest expenses:		
Interest on deposits	¥ 88,122	$ 834
Interest on borrowings and rediscounts	94,186	891
Interest on payables under repurchase agreements	3,089	29
Interest on payables under securities lending transactions	48,621	460
Interest on bonds	49,441	468
Other interest expenses	21,822	206
Fees and commissions	95,506	904
Trading losses	2,881	27
Other operating expenses	159,774	1,512
General and administrative expenses	623,098	5,896
Other expenses	983,795	9,308
Total expenses	**¥2,170,341**	**$20,535**
Income before income taxes	**¥ 318,846**	**$ 3,017**
Income taxes:		
Current	¥ 12,752	$ 121
Deferred	4,980	47
Net income	**¥ 301,113**	**$ 2,849**

	Yen	U.S. dollars (Note 1)
Per share data:		
Net income	¥ 5,228.80	$ 49.47
Net income — diluted	5,221.53	49.40
Declared dividends on common stock	4,177	39.52
Declared dividends on preferred stock (Type 1)	10,500	99.35
Declared dividends on preferred stock (Type 2)	28,500	269.66
Declared dividends on preferred stock (Type 3)	13,700	129.62

INDEPENDENT AUDITORS' REPORT

To The Board of Directors of
Sumitomo Mitsui Banking Corporation

We have audited the accompanying consolidated balance sheet of Sumitomo Mitsui Banking Corporation ("SMBC") and subsidiaries as of March 31, 2003, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of SMBC's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SMBC and subsidiaries as of March 31, 2003, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in Japan as described in Note 1 to the consolidated financial statements.

The consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

Asahi & Co.
Tokyo, Japan
June 27, 2003

CONSOLIDATED FINANCIAL STATEMENTS OF SUMITOMO MITSUI BANKING CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
MARCH 31, 2003

	Millions of yen	Millions of U.S. dollars (Note 1)
Assets		
Cash and due from banks (Note 9)	¥ 2,895,968	$ 24,093
Deposits with banks (Notes 9, 28)	541,275	4,503
Call loans and bills bought	187,563	1,560
Receivables under resale agreements	109,710	913
Receivables under securities borrowing transactions	1,981,243	16,483
Commercial paper and other debt purchased (Note 28)	363,981	3,028
Trading assets (Notes 3, 9, 28)	4,495,396	37,399
Money held in trust (Note 28)	24,629	205
Securities (Notes 4, 9, 28)	23,958,521	199,322
Loans and bills discounted (Notes 5, 9, 27)	61,219,617	509,315
Foreign exchanges	749,974	6,239
Other assets (Notes 6, 9)	2,157,885	17,953
Premises and equipment (Notes 7, 9, 15)	920,076	7,655
Lease assets (Note 8)	26,130	217
Deferred tax assets (Note 24)	1,885,307	15,685
Deferred tax assets for land revaluation (Note 15)	724	6
Customers' liabilities for acceptances and guarantees	3,078,461	25,611
Reserve for possible loan losses	(2,201,830)	(18,318)
Total assets	**¥102,394,637**	**$ 851,869**
Liabilities, minority interests and stockholders' equity		
Liabilities		
Deposits (Notes 9, 10)	¥ 67,885,022	$ 564,767
Call money and bills sold (Note 9)	8,953,084	74,485
Payables under repurchase agreements (Note 9)	4,144,735	34,482
Payables under securities lending transactions (Note 9)	4,807,245	39,994
Commercial paper	50,500	420
Trading liabilities (Notes 9, 11)	2,851,391	23,722
Borrowed money (Notes 9, 12)	1,427,000	11,872
Foreign exchanges	397,666	3,308
Bonds (Note 13)	3,441,137	28,628
Due to trust account	5,953	50
Other liabilities (Notes 9, 14)	1,952,000	16,240
Reserve for employee bonuses	16,111	134
Reserve for employee retirement benefits (Note 25)	92,802	772
Reserve for possible losses on loans sold	20,665	172
Other reserves	649	5
Deferred tax liabilities (Note 24)	43,726	364
Deferred tax liabilities for land revaluation (Notes 15, 24)	58,788	489
Acceptances and guarantees (Note 9)	3,078,461	25,611
Total liabilities	**¥ 99,226,942**	**$ 825,515**
Minority interests (Note 16)	**¥ 1,025,150**	**$ 8,529**
Stockholders' equity (Note 17)		
Capital stock (Note 17)	559,985	4,659
Capital surplus	1,298,511	10,803
Retained earnings	258,690	2,152
Land revaluation excess (Note 15, 24)	101,336	843
Net unrealized losses on other securities (Note 28)	(21,559)	(179)
Foreign currency translation adjustments	(54,419)	(453)
Total stockholders' equity	**¥ 2,142,544**	**$ 17,825**
Total liabilities, minority interests and stockholders' equity	**¥102,394,637**	**$ 851,869**

See accompanying notes to consolidated financial statements.

SUMITOMO MITSUI BANKING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS
YEAR ENDED MARCH 31, 2003

	Millions of yen	Millions of U.S. dollars (Note 1)
Income		
Interest income:		
Interest on loans and discounts	¥1,266,319	$10,535
Interest and dividends on securities	268,840	2,237
Interest on receivables under resale agreements	1,352	11
Interest on receivables under securities borrowing transactions	225	2
Interest on deposits with banks	34,759	289
Other interest income	246,028	2,047
Trust Fees	7	0
Fees and commissions (Note 18)	424,235	3,529
Trading profits (Note 19)	206,496	1,718
Other operating income (Note 20)	947,036	7,879
Other income (Note 21)	166,541	1,386
Total income	**¥3,561,843**	**$29,633**
Expenses		
Interest expenses:		
Interest on deposits	¥ 159,943	$ 1,331
Interest on borrowings and rediscounts	56,485	470
Interest on payables under repurchase agreements	18,185	151
Interest on payables under securities lending transactions	28,830	240
Interest on bonds and bonds with subscription rights for shares	76,219	634
Other interest expenses	77,741	647
Fees and commissions (Note 18)	74,257	618
Trading losses (Note 19)	725	6
Other operating expenses (Note 22)	721,193	6,000
General and administrative expenses	888,421	7,391
Transfer to reserve for possible loan losses	655,488	5,453
Other expenses (Notes 23, 24)	1,347,022	11,207
Total expenses	**¥4,104,514**	**$34,148**
Loss before income taxes and minority interests	**¥ 542,670**	**$ 4,515**
Income taxes (Note 24):		
Current	¥ 65,912	$ 548
Deferred	(216,233)	(1,799)
Minority interests in net income	¥ 37,037	$ 308
Net loss	**¥ 429,387**	**$ 3,572**

	Yen	U.S. dollars (Note 1)
Per share data:		
Net loss	¥10,429.29	$86.77
Net income — diluted	—	—
Declared dividends on common stock	—	—
Declared dividends on preferred stock (Type 1)	—	—
Declared dividends on preferred stock (Type 2)	—	—
Declared dividends on preferred stock (Type 3)	—	—

See accompanying notes to consolidated financial statements.

SUMITOMO MITSUI BANKING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
YEAR ENDED MARCH 31, 2003

	Millions of yen							
	Capital stock (Note 17)	Capital surplus	Retained earnings	Land revaluation excess	Net unrealized losses on other securities	Foreign currency translation adjustments	Treasury stock	Total
Balance at March 31, 2002	¥1,326,746	¥1,326,758	¥475,357	¥121,244	¥(304,837)	¥(15,174)	¥(17,475)	¥2,912,619
Establishment of the holding company							17,475	17,475
Corporate split	(494,100)							(494,100)
Exchange of stocks		160,220						160,220
Issuance of stocks	285,362	284,907						570,269
Merger with Wakashio Bank	(558,023)	(826,653)	658,440		672,810			(53,425)
Change of regulations		357,614	(357,614)					—
Change due to increase/decrease of subsidiaries and affiliates			56,078					56,078
Losses on disposition of treasury stock		(4,336)						(4,336)
Transfer of land revaluation excess			17,125	(17,125)				—
Change of tax rate and others				(2,783)				(2,783)
Cash dividends paid			(161,312)					(161,312)
Net loss			(429,387)					(429,387)
Change of net unrealized losses on other securities					(389,532)			(389,532)
Change of foreign currency translation adjustments						(39,244)		(39,244)
Balance at March 31, 2003	¥ 559,985	¥1,298,511	¥258,690	¥101,336	¥ (21,559)	¥(54,419)	¥ —	¥2,142,544

	Millions of U.S. dollars (Note 1)							
	Capital stock (Note 17)	Capital surplus	Retained earnings	Land revaluation excess	Net unrealized losses on other securities	Foreign currency translation adjustments	Treasury stock	Total
Balance at March 31, 2002	$11,038	$11,038	$ 3,955	$1,008	$(2,536)	$(126)	$(146)	$24,231
Establishment of the holding company							146	146
Corporate split	(4,111)							(4,111)
Exchange of stocks		1,333						1,333
Issuance of stocks	2,374	2,370						4,744
Merger with Wakashio Bank	(4,642)	(6,877)	5,478		5,597			(444)
Change of regulations		2,975	(2,975)					—
Change due to increase/decrease of subsidiaries and affiliates			466					466
Losses on disposition of treasury stock		(36)						(36)
Transfer of land revaluation excess			142	(142)				—
Change of tax rate and others				(23)				(23)
Cash dividends paid			(1,342)					(1,342)
Net loss			(3,572)					(3,572)
Change of net unrealized losses on other securities					(3,240)			(3,240)
Change of foreign currency translation adjustments						(327)		(327)
Balance at March 31, 2003	$ 4,659	$10,803	$ 2,152	$ 843	$ (179)	$(453)	$ —	$17,825

See accompanying notes to consolidated financial statements.

SUMITOMO MITSUI BANKING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2003

	Millions of yen	Millions of U.S. dollars (Note 1)
1. Cash flows from operating activities:		
Loss before income taxes and minority interests	¥ (542,670)	$ (4,515)
Depreciation of premises, equipment and others	89,412	744
Depreciation of lease assets	312,562	2,600
Amortization of goodwill	10,399	86
Equity in earnings of affiliates	(1,703)	(14)
Net change in reserve for possible loan losses	82,688	688
Net change in reserve for possible losses on loans sold	(65,706)	(547)
Net change in reserve for employee bonuses	(224)	(2)
Net change in reserve for employee retirement benefits	(47,563)	(396)
Interest income	(1,817,526)	(15,121)
Interest expenses	417,405	3,473
Net losses on securities	453,229	3,771
Net loss from money held in trust	4,003	33
Net exchange losses	170,155	1,416
Net losses from disposition of premises and equipment	33,298	277
Net losses from disposition of lease assets	1,505	12
Net change in trading assets	(1,253,569)	(10,429)
Net change in trading liabilities	569,881	4,741
Net change in loans and bills discounted	2,215,660	18,433
Net change in deposits	(3,767,125)	(31,340)
Net change in borrowed money (excluding subordinated debt)	(261,965)	(2,179)
Net change in deposits with banks	2,947,784	24,524
Net change in call loans, bills bought and receivables under resale agreements	1,280,173	10,650
Net change in receivables under securities borrowing transactions	1,039,276	8,646
Net change in call money, bills sold and payables under repurchase agreements	902,660	7,510
Net change in commercial paper	(979,700)	(8,151)
Net change in payables under securities lending transactions	1,632,445	13,581
Net change in foreign exchanges (assets)	42,144	351
Net change in foreign exchanges (liabilities)	99,013	824
Issuance and redemption of bonds (excluding subordinated bonds)	457,319	3,805
Net change in due to trust account	5,953	50
Interest received	1,957,564	16,286
Interest paid	(464,800)	(3,867)
Other, net	67,366	560
Subtotal	**¥ 5,589,349**	**$ 46,500**
Income taxes paid	(99,188)	(825)
Net cash provided by operating activities	**¥ 5,490,161**	**$ 45,675**

See accompanying notes to consolidated financial statements.

SUMITOMO MITSUI BANKING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS — (Continued)
YEAR ENDED MARCH 31, 2003

	Millions of yen	Millions of U.S. dollars (Note 1)
2. Cash flows from investing activities:		
Purchases of securities	¥(49,937,936)	$(415,457)
Proceeds from sale of securities	37,713,543	313,757
Proceeds from maturity of securities	7,907,363	65,785
Purchases of money held in trust	(14,622)	(122)
Proceeds from sale of money held in trust	23,624	197
Purchases of premises and equipment	(69,883)	(581)
Proceeds from sale of premises and equipment	73,677	613
Purchases of lease assets	(336,512)	(2,800)
Proceeds from sale of lease assets	33,900	282
Purchases of stock of subsidiaries	(15,444)	(128)
Proceeds from sale of stock of subsidiaries	53	0
Net cash used in investing activities	**¥ (4,622,236)**	**$ (38,454)**
3. Cash flows from financing activities:		
Proceeds from issuance of subordinated debt	¥ 165,000	$ 1,373
Repayment of subordinated debt	(286,500)	(2,383)
Proceeds from issuance of subordinated bonds, bonds with subscription rights for shares	223,950	1,863
Repayment of subordinated bonds, bonds with subscription rights for shares	(565,522)	(4,705)
Proceeds from issuance of stocks	570,269	4,744
Dividends paid	(161,312)	(1,342)
Proceeds from minority stockholders	220	2
Dividends paid to minority stockholders	(39,621)	(330)
Purchases of treasury stock	(7,524)	(63)
Proceeds from sale of treasury stock	8,479	71
Net cash used in financing activities	**¥ (92,561)**	**$ (770)**
4. Effect of exchange rate changes on cash and due from banks	**(2,629)**	**(22)**
5. Net change in cash and due from banks	**¥ 772,734**	**$ 6,429**
6. Cash and due from banks at beginning of year	**¥ 2,128,742**	**$ 17,710**
7. Change in cash and due from banks due to merger of consolidated subsidiaries	**0**	**0**
8. Change in cash and due from banks due to decrease of consolidated subsidiaries	**(5,509)**	**(46)**
9. Cash and due from banks at end of year	**¥ 2,895,968**	**$ 24,093**

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED MARCH 31, 2003

1. Basis of Financial Statements

On March 17, 2003, Sumitomo Mitsui Banking Corporation (the ''Bank'') was merged with its subsidiary, THE WAKASHIO BANK, LTD. (''Wakashio''). Wakashio succeeded the Bank's assets, liabilities, all the claims, obligations and employees, and changed its corporate name to Sumitomo Mitsui Banking Corporation (''SMBC'').

SMBC and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen, and in accordance with the provisions set forth in the Japanese Commercial Code and accounting principles and practices generally accepted in Japan (''Japanese GAAP'').

The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying consolidated financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of stockholders' equity) from the consolidated financial statements of SMBC prepared in accordance with Japanese GAAP.

Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

Amounts less than one million yen have been omitted. As a result, the totals in Japanese yen shown in the financial statements do not necessarily agree with the sum of the individual amounts.

For the convenience of the readers, the accompanying U.S. dollar financial statements have been translated from Japanese yen, as a matter of arithmetical computation only, at the rate of ¥120.20 to US$1, the exchange rate prevailing at March 31, 2003. The translations should not be construed as a representation that Japanese yen have been, could have been, or could in the future be, converted into U.S. dollars at that rate.

2. Significant Accounting Policies

(1) Consolidation and Equity Method

(a) Scope of consolidation

Japanese accounting standards on consolidated financial statements require a company to consolidate any subsidiaries of which the company substantially controls the operations, even if it is not a majority owned subsidiary. Control is defined as the power to govern the decision making body of an enterprise.

(i) Consolidated subsidiaries

SMBC has 114 consolidated subsidiaries and principal subsidiaries are as follows:

THE MINATO BANK, LTD.
The Bank of Kansai, Ltd.
Sumitomo Mitsui Banking Corporation Europe Limited
Manufacturers Bank
SMBC Capital Co., Ltd.
SMBC Finance Co., Ltd.
Sakura Friend Securities Co., Ltd.
Meiko National Securities Co., Ltd.
SMBC Capital Markets, Inc.

Three companies including Meiko National Securities Co., Ltd. and eight companies including Sumitomo Mitsui Banking Corporation Europe Limited are consolidated from this fiscal year due to acquisition of shares and establishment, respectively.

Twenty-nine companies including SMBC Leasing Company, Limited, Sumitomo Mitsui Card Company, Limited and The Japan Research Institute, Limited are excluded from consolidation from this fiscal year mainly due to corporate split. Also, five companies including SAKURA INVESTMENT MANAGEMENT CO., LTD. and seven companies including Sumitomo Mitsui Finance Australia (Securities) Limited are excluded from consolidation from this fiscal year due to merger and liquidation, respectively.

(ii) Nonconsolidated subsidiaries
Principal company
SBCS Co., Ltd.

Nonconsolidated subsidiaries' total assets, ordinary income, net income and retained earnings have no significant impact on the consolidated financial statements.

(b) Application of the equity method

Japanese accounting standards also require any nonconsolidated subsidiaries and affiliates on which SMBC is able to exercise material influence over their financial and operating policies are to be accounted for by the equity method.

(i) Nonconsolidated subsidiaries accounted for by the equity method — 4 companies
Principal company
SBCS Co., Ltd.

Bangkok SMBC Systems Ltd. was excluded from nonconsolidated subsidiaries accounted for by the equity method due to liquidation.

(ii) Affiliates accounted for by the equity method — 12 companies
Principal companies
Sumitomo Mitsui Asset Management Company, Limited
QUOQ Inc.

Sumitomo Mitsui Asset Management Company, Limited became an affiliated company accounted for by the equity method from this fiscal year because of the acquisition of shares due to merger with SAKURA INVESTMENT MANAGEMENT CO., LTD.

Twenty companies including Daiwa Securities SMBC Co. Ltd. and Daiwa SB Investments Ltd. are excluded from affiliated companies accounted for by the equity method from this fiscal year due to corporate split. China United International Leasing Co., Ltd. was excluded from affiliated companies because it was sold. Also, Meiko National Securities Co., Ltd. was excluded from affiliated companies accounted for by the equity method because it became SMBC's consolidated subsidiary due to acquisition of shares.

(iii) Nonconsolidated subsidiaries and affiliates that are not accounted for by the equity method.
Principal company
Sumitomo Mitsui Asset Management Company (New York) Inc.

Net income and retained earnings of nonconsolidated subsidiaries and affiliates that are not accounted for by the equity method have no significant impact on the consolidated financial statements.

(c) The balance sheet dates of consolidated subsidiaries

(i) The dates of year-end account closing of consolidated subsidiaries are as follows:

September 30	5 Companies
October 31	1 Company
December 31	44 Companies
January 31	1 Company
March 31	63 Companies

(ii) As for the companies whose balance sheet dates are September 30 and October 31, the accounts were provisionally closed as of March 31 and January 31 for the purpose of consolidation, respectively. The other companies are consolidated on the basis of their respective balance sheet dates.

As for the consolidated overseas subsidiary that was established in February 2003 and whose balance sheet date is December 31, the accounts were provisionally closed as of March 31 for the purpose of consolidation.

Appropriate adjustments were made for significant transactions during the periods from their respective balance sheet dates to the consolidated closing dates.

(d) Valuation of consolidated subsidiaries' assets and liabilities

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to the minority stockholders, are evaluated using the fair value at the time SMBC acquired control of the respective subsidiaries.

(e) Amortization of goodwill

Goodwill on Sumitomo Mitsui Card Company, Limited is amortized using the straight-line method over five years and goodwill on other companies is charged or credited to income directly when incurred.

(2) Statement of cash flows

For the purposes of the consolidated statement of cash flows, cash and cash equivalents represent cash and due from banks.

Reconciliation of the opening balance at the time of consolidation with respect to acquisition of the five companies including Meiko National Securities Co., Ltd. and MITSUI AUTO LEASING, LTD were as follows:

	Millions of yen	Millions of U.S. dollars
Assets	¥ 191,318	$ 1,592
Lease assets	82,346	685
Liabilities	¥(150,698)	$(1,254)
Borrowed money	(96,817)	(805)
Minority interests	(26,881)	(224)
Goodwill	5,013	42
Acquisition costs for the five companies' stocks (a)	18,751	156
Cash and due from banks of the five companies (b)	(3,306)	(28)
(a) – (b) Cash expenditure for acquisition of the five companies	¥ 15,444	$ 128

Significant non-cash transactions (twenty-nine companies' assets and liabilities that were excluded from consolidation due mainly to corporate split) were as follows:

	Millions of yen	Millions of U.S. dollars
Assets	¥2,865,787	$23,842
Lease assets	996,596	8,291
Liabilities	¥2,596,322	$21,600
Borrowed money	1,433,305	11,924

(3) Trading assets and liabilities

Financial instruments, such as derivatives and trading securities, which are held for the short term in anticipation of market gains, are recorded at fair value. Such gains and losses are included in trading profits or losses on the consolidated statement of operations. Trading assets and liabilities are recorded at trade date.

(4) Securities

As for securities other than trading purposes, debt securities that SMBC and consolidated subsidiaries have the intent and ability to hold to maturity (held-to-maturity securities) are carried at amortized cost (straight-line method) using the moving-average method.

Investments in nonconsolidated subsidiaries and affiliates that are not accounted for by the equity method are carried at cost using the moving-average method.

Securities other than trading purpose securities, held-to-maturity debt securities and investments in subsidiaries and affiliates are classified as "other securities" (available-for-sale securities). Stocks in other securities that have market value are carried at the average market prices during the final month of the fiscal year, and bonds and others that have market prices are carried at their fiscal year-end market prices (cost of securities sold is calculated using primarily the moving-average method). Other securities with no market prices are carried at cost or amortized cost using the moving-average method. Net unrealized gains (losses) on other securities, net of income taxes, are included in "Stockholders' equity."

Securities included in money held in trust account are carried in the same manner as for securities mentioned above.

(5) Derivative transactions

Derivative transactions, excluding those classified as trading derivatives, are carried at fair value, though some consolidated overseas subsidiaries account for derivative transactions in accordance with local accounting standards.

(6) Hedge accounting

Pursuant to the temporary treatment regulated by "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry" (JICPA Industry Audit Committee Report No. 24), SMBC applies "the risk adjustment approach" to hedging (Macro hedge) in accordance with the Industry Audit Committee Report No. 15 "Temporary Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry" issued by JICPA, abiding by the following requirements:

(a) Loans, deposits and other interest-earning assets and interest-bearing liabilities as a whole shall be recognized as the hedged portfolio.

(b) Derivatives as the hedging instruments shall effectively reduce the interest rate exposure of the hedged portfolio.

(c) Effectiveness of hedging activities shall be evaluated on a quarterly basis.

SMBC applies deferred hedge accounting.

In order to hedge risk arising from volatility of exchange rates for stocks of subsidiaries and affiliates, and other securities (excluding bonds) denominated in foreign currency, SMBC applies deferred hedge accounting or fair value hedge accounting, on the conditions that the hedged security is specified in advance and that enough on-balance (actual) or off-balance (forward) liability exposure exists to cover the cost of the hedged security in foreign currency base.

Certain interest swaps for the purpose of hedging are recorded on an accrual basis using the short-cut method (exceptional treatment for interest rate swaps) in view of consistency with the risk management policy.

Certain consolidated subsidiaries use the deferred hedge accounting or the short-cut method. A consolidated domestic subsidiary (a leasing company) applies the accounting method that is permitted by the Industry Audit Committee Report No. 19 "Temporary Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Leasing Industry" issued by JICPA.

Net amount of deferred unrealized gains on hedging instruments to which hedge accounting is applied is recognized as deferred profit on hedge and is included in Other liabilities. Gross deferred unrealized losses and gross deferred unrealized gains on hedging instruments at March 31, 2003, were ¥944,797 million ($7,860 million) and ¥1,094,799 million ($9,108 million), respectively.

(7) Non-accrual loans

Loans are generally placed on non-accrual status when such loans are classified as Bankrupt, Effectively Bankrupt or Potentially Bankrupt by the self-assessment rule (see (10) Reserve for possible loan losses).

(8) Premises and equipment

Premises and equipment are generally stated at cost less accumulated depreciation. SMBC computes depreciation for premises using the straight-line method over the estimated useful lives of the respective assets. The depreciation for equipment is computed using the declining-balance method over the estimated useful lives of the respective assets. The estimated useful lives of major items are as follows:

Buildings: 7 to 50 years
Equipment: 2 to 20 years

Depreciation of premises and equipment owned by consolidated subsidiaries is mainly computed using the straight-line method over the estimated useful lives of respective assets.

(9) Software costs

Capitalized software for internal use is depreciated using the straight-line method over its estimated useful life (mainly five years) at SMBC and consolidated domestic subsidiaries, and is included in Other assets.

(10) Reserve for possible loan losses

Reserve for possible loan losses of SMBC and major consolidated subsidiaries is provided as detailed below in accordance with the internal standards for write-offs and reserves.

For claims on borrowers who have entered into bankruptcy, special liquidation proceedings or similar legal proceedings ("bankrupt borrowers") or borrowers that are not legally or formally insolvent but are regarded as substantially in the same situation ("effectively bankrupt borrowers"), a reserve is provided based on the amount of claims, after the charge-off stated below, net of the expected amount of recoveries from collateral and guarantees.

For claims on borrowers that are not currently bankrupt but are likely to become bankrupt in the future, a reserve is provided in the amount deemed necessary based on an overall solvency assessment of the claims, net of the expected amount of recoveries from collateral and guarantees.

Pursuant to "Audit considerations with respect to the discounted cash flow method used to determine allowance for credit losses by banks and other financial institutions" (issued by JICPA on February 24, 2003), SMBC provides reserve for possible loan losses using the Discounted Cash Flows method as follows for claims to large borrowers of "Past due loans (3 months or more)" or "Restructured loans":

(a) SMBC rationally estimates the cash flows of principal and interest, and measures their present values by discounting the cash flows using the initial contractual interest rate.

(b) SMBC recognizes the difference between the present value and its book value as estimated losses and provides reserve for possible loan losses.

For other claims, a reserve is provided based on the historical loan-loss ratio.

For claims originated in specific countries, an additional reserve is provided for by the amount deemed necessary based on the assessment of political and economic conditions.

Branches and credit supervision departments assess all claims in accordance with the internal rule for self-assessment of assets, and the Credit Review Department, independent from these operating sections, audits their assessment. The reserves are provided based on the results of these assessments.

Reserve for possible loan losses of other consolidated subsidiaries for general claims is provided in the amount deemed necessary based on the historical loan-loss ratio, and for doubtful claims in the amount deemed uncollectible based on assessment of each claim.

For collateralized or guaranteed claims on bankrupt borrowers and effectively bankrupt borrowers, the amount exceeding the estimated value of collateral and guarantees is deemed to be uncollectible and charged off against the total outstanding amount of the claims. The amount of charge-off was ¥1,251,553 million ($10,412 million).

(11) Reserve for possible losses on loans sold

Reserve for possible losses on loans sold is provided for contingent losses arising from decline of market value of underlying collateral for loans sold to the Cooperative Credit Purchasing Company, Limited.

(12) Reserve for employee bonuses

Reserve for employee bonuses is provided, in provision for payment of bonuses to employees, by the amount of estimated bonuses, which are attributable to the respective fiscal year.

(13) Reserve for employee retirement benefits

Under the terms of SMBC's retirement plan, substantially all employees are entitled to a lump sum payment at the time of retirement. The amount of the lump-sum payment is, in general, calculated based on length of service, basic salary at the time of retirement and reason for retirement. In addition, SMBC has defined benefit pension plans which cover substantially all employees.

Reserve for employee retirement benefits is recorded based on an actuarial computation, which uses the present value of the projected benefit obligation and pension assets, due to employee's credited years of services at the balance sheet date. Prior service costs are amortized using the straight-line method over certain years (mainly 10 years) within the average remaining service period of active employees. Unrecognized net actuarial gain or loss is amortized from the next fiscal year using the straight-line method over certain years (mainly 10 years) within the average remaining service period of active employees. Unrecognized net obligation from initial application of the new accounting standard for employee retirement benefits is amortized using the straight-line method over five years.

Some domestic consolidated subsidiaries received an approval from Minister of Health, Labor and Welfare for exemption from future retirement benefit obligations with respect to the entrusted portion of the employee pension fund, in accordance with the implementation of the "Defined benefit enterprise pension plan law." They apply the temporary treatment that is regulated by Article 47-2 of "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)" (JICPA's Accounting Committee Report No. 13), and derecognize retirement benefit liabilities on the entrusted portion and plan assets equivalent to the amount to be returned. The equivalent amount of return of plan assets was ¥23,906 million ($199 million) as of the fiscal year-end.

(14) Other reserves

Other reserves required by special laws are reserve for contingent liabilities from financial futures transaction of ¥18 million ($0 million) in accordance with Article 82 of the Financial Futures Transaction Law, and reserve for contingent liabilities from securities transaction of ¥631 million ($5 million) in accordance with Article 51 of the Securities Exchange Law.

(15) Translation of foreign currencies

SMBC's assets and liabilities denominated in foreign currencies and overseas branches' accounts are translated into Japanese yen mainly at the exchange rate prevailing at the consolidated balance sheet date, with the exception of stocks of subsidiaries and affiliates translated at rates prevailing at the time of acquisition.

Consolidated subsidiaries' assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing at their respective balance sheet dates.

(16) Lease transactions

Financing leases where the ownership of the property is deemed to be transferred to the lessee are capitalized, while other financing leases are allowed to be accounted for in the same manner as operating leases.

Lease assets are depreciated using the straight-line method over the lease term with estimated salvage value.

Lease-related income is recognized on a straight-line basis over the full term of the lease, based on the contractual amount of lease fees per month.

(17) Appropriation of retained earnings

The consolidated statement of stockholders' equity reflects the appropriation of retained earnings approved by the board of directors and/or the general meeting of shareholders.

(18) Amounts per share

Net income (loss) per share is computed by deducting dividends for preferred stock from net income (loss), divided by the weighted average number of shares of common stock, excluding treasury stock outstanding during each fiscal year.

Declared dividends represent the cash dividends declared applicable to respective years, including dividends to be paid after the end of the year.

From this fiscal year, SMBC applies "Accounting Standard for Earnings Per Share" (Financial Accounting Standards No. 2) and "Implementation Guidance for Accounting Standard for Earnings Per Share" (Financial Accounting Standards Implementation Guidance No. 4). Net loss per share calculated using the former manner is ¥10,433.31 ($86.80).

(19) Adoption of new accounting standards

(a) In accordance with the amendment of the consolidated financial statements regulation and the Ordinance of Banking Law, presentation of financial statements was changed as follows:

(i) Consolidated balance sheet

Before March 31, 2002, "Pledged money for securities borrowing transactions" was included in "Other assets." From this fiscal year, it is separately reported as "Receivables under securities borrowing transactions." Consequently, "Other assets" decreased by ¥1,981,243 million ($16,483 million) and "Receivables under securities borrowing transactions" increased by the same amount as compared with the former manner.

Also, from this fiscal year, "Pledged money for securities lending transactions" that was formerly reported as "Other liabilities" on the consolidated balance sheet is reported as "Payables under securities lending transactions."

(ii) Consolidated Statement of operations

Before March 31, 2002, interest related to securities borrowing or lending transactions guaranteed by cash were included in "Other interest income" or "Other interest expenses". From this fiscal year, they are reported as "Interest on receivables under securities borrowing transactions" and "Interest on payables under securities lending transactions," respectively.

From this fiscal year, ''Interest on bonds and convertible bonds'' are reported as ''Interest on bonds and bonds with subscription rights for shares''.

(iii) Consolidated statement of cash flows

From this fiscal year, ''Net change in pledged money for securities borrowing transactions'' and ''Net change in pledged money for securities lending transactions'' are reported as ''Net change in receivables under securities borrowing transactions'' and ''Net change in payables under securities lending transactions,'' respectively.

From this fiscal year, ''Proceeds from issuance of subordinated bonds, convertible bonds and notes'' and ''Repayment of subordinated bonds, convertible bonds and notes'' are reported as ''Proceeds from issuance of subordinated bonds, bonds with subscription rights for shares'' and ''Repayment of subordinated bonds, bonds with subscription rights for shares'' respectively.

(b) From this fiscal year, SMBC applies ''Accounting Standard for Treasury Stock and Reversal of Legal Reserves'' (Financial Accounting Standards No 1). This new accounting standard does not have a material impact on the consolidated financial statements.

Also, other capital surplus that was formerly included in ''Retained earnings'' is reported in ''Capital surplus'' from this fiscal year.

As for the consolidated statement of cash flows, ''Proceeds from the sale of parent bank stock held by subsidiaries'' of ¥8,479 million ($71 million) that was separately reported is included in ''Proceeds from sale of treasury stock'' from this fiscal year.

3. Trading Assets

Trading assets at March 31, 2003 consisted of the following:

March 31, 2003	Millions of yen	Millions of U.S. dollars
Trading securities	¥ 225,610	$ 1,877
Derivatives on trading securities	81	1
Derivatives on securities related to trading transactions	121	1
Trading-related financial derivatives	3,060,803	25,464
Other trading assets	1,208,779	10,056
	¥4,495,396	$37,399

4. Securities

Securities at March 31, 2003 consisted of the following:

March 31, 2003	Millions of yen	Millions of U.S. dollars
Japanese government bonds*	¥12,901,636	$107,335
Japanese local government bonds	375,204	3,121
Japanese corporate bonds	2,370,553	19,722
Japanese stocks**	3,326,510	27,675
Other**	4,984,616	41,469
	¥23,958,521	$199,322

* Includes ¥999 million ($8 million) of unsecured loaned securities for which borrowers have the rights to sell or pledge and loaned securities of ¥140 million ($1 million) for which borrowers only have the rights to pledge and not to sell.

As for the unsecured borrowed securities for which SMBC has the rights to sell or pledge and the securities which SMBC purchased under resale agreements, that are permitted to sell or pledge without restrictions, ¥2,084,632 million ($17,343 million) of securities are pledged, ¥99,624 million ($829 million) of securities are held in hand as of the consolidated balance sheet date. SMBC may pledge the borrowed securities as well.

** Japanese stocks and other include investments in nonconsolidated subsidiaries and affiliates of ¥23,010 million ($191 million).

5. Loans and Bills Discounted

Loans and bills discounted at March 31, 2003 consisted of the following:

March 31, 2003	Millions of yen	Millions of U.S. dollars
Bills discounted	¥ 735,614	$ 6,120
Loans on notes	7,709,991	64,143
Loans on deeds	44,777,340	372,524
Overdrafts	7,996,669	66,528
	¥61,219,617	$509,315

The following summarizes the non-accrual loans at March 31, 2003:

March 31, 2003	Millions of yen	Millions of U.S. dollars
Bankrupt loans	¥ 199,794	$ 1,662
Non-accrual loans	2,665,675	22,177
Total non-accrual loans	¥2,865,469	$23,839

The amounts above include the trusted amount with the Resolution and Collection Corporation of ¥40,811 million ($340 million), which will be treated as off-balancing.

In addition to the non-accrual loans, SMBC also classifies past due loans (3 months or more) as substandard loans, and such loan balances at March 31, 2003 were ¥128,493 million ($1,069 million).

Restructured loans are loans for which SMBC has adjusted the terms of the loans in favor of borrowers as a means of financial assistance. These restructured loans are also classified as substandard and amounted to ¥2,689,172 million ($22,372 million) at March 31, 2003.

6. Other Assets

Other assets at March 31, 2003 consisted of the following:

March 31, 2003	Millions of yen	Millions of U.S. dollars
Accrued income	¥ 180,332	$ 1,500
Deferred assets	7,336	61
Financial derivatives	996,130	8,288
Other	974,086	8,104
	¥2,157,885	$17,953

7. Premises and Equipment

Premises and equipment at March 31, 2003 consisted of the following:

March 31, 2003	Millions of yen	Millions of U.S. dollars
Land(*)	¥ 480,749	$ 4,000
Buildings	512,632	4,265
Equipment and others	499,227	4,153
Total	¥1,492,609	$12,418
Accumulated depreciation	(572,532)	(4,763)
	¥ 920,076	$ 7,655

(*) Includes land revaluation excess for land referred to in Note 15.

8. Lease Assets

Lease assets at March 31, 2003 were as follows:

March 31, 2003	Millions of yen	Millions of U.S. dollars
Equipment and others	¥ 54,688	$ 455
Accumulated depreciation	(28,558)	(238)
	¥ 26,130	$ 217

9. Assets Pledged as Collateral

Assets pledged as collateral at March 31, 2003 consisted of the following:

March 31, 2003	Millions of yen	Millions of U.S. dollars
Assets pledged as collateral		
Cash and due from banks and Deposits with banks	¥ 75,268	$ 626
Trading assets	990,965	8,244
Securities	11,457,673	95,322
Loans and bills discounted	4,738,320	39,420
Other assets	1,140	9
Premises and equipment	535	4
Liabilities corresponding to assets pledged as collateral		
Deposits	21,038	175
Call money and bills sold	7,952,599	66,161
Payables under repurchase agreements	4,107,615	34,173
Payables under securities lending transactions	4,189,794	34,857
Trading liabilities	136,975	1,140
Borrowed money	2,847	24
Other liabilities	18,548	154
Acceptances and guarantees	41,108	342

In addition to the assets presented above, the following assets were pledged as collateral for exchange settlements, initial margins of futures markets and certain other purposes at March 31, 2003:

March 31, 2003	Millions of yen	Millions of U.S. dollars
Cash and due from banks and Deposits with banks	¥ 54,370	$ 452
Trading assets	13,937	116
Securities	4,621,947	38,452
Loans and bills discounted	781,138	6,499

Premises and equipment included surety deposits and intangibles of ¥114,961 million ($956 million) at March 31, 2003. Other assets included initial margins of futures markets of ¥14,814 million ($123 million).

10. Deposits

Deposits at March 31, 2003 consisted of the following:

March 31, 2003	Millions of yen	Millions of U.S. dollars
Current deposits	¥ 5,112,819	$ 42,536
Ordinary deposits	27,478,086	228,603
Savings deposits	1,336,725	11,121
Deposits at notice	3,618,589	30,105
Time deposits	21,181,667	176,220
Negotiable certificates of deposit	4,889,017	40,674
Other deposits	4,268,116	35,508
	¥67,885,022	$564,767

11. Trading Liabilities

Trading liabilities at March 31, 2003 consisted of the following:

March 31, 2003	Millions of yen	Millions of U.S. dollars
Trading securities	¥ 9,806	$ 82
Derivatives on trading securities	78	1
Derivatives of securities related to trading transactions	423	3
Trading-related financial derivatives	2,840,629	23,632
Other	454	4
	¥2,851,391	$23,722

12. Borrowed Money

Borrowed money at March 31, 2003 consisted of the following:

March 31, 2003	Millions of yen	Millions of U.S. dollars	Average rate*
Bills rediscounted	¥ —	$ —	—
Other borrowings**	1,427,000	11,872	2.39%
	¥1,427,000	$11,872	2.39%

* Average rate represents the weighted average rate based on the balances and rates at respective year-end of SMBC and consolidated subsidiaries.

** Includes subordinated debt obligation of ¥877,609 million ($7,301 million).

The repayment schedule within five years on borrowed money at March 31, 2003 is shown as follows:

Millions of yen				
1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
¥270,322	¥212,018	¥79,709	¥7,990	¥69,539

Millions of U.S. dollars				
1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
$2,249	$1,764	$663	$66	$579

13. Bonds

Bonds at March 31, 2003 consisted of the following:

		March 31, 2003			
Issuer	Description	Millions of yen*	Millions of U.S. dollars	Rate (%)	Due
SMBC	Straight bonds, payable in Yen	¥ 1,827,733 [30,000]	$15,206	0.51-1.74	May 2003-Mar. 2013
	Straight bonds, payable in Euro Yen	5,000	41	3.00	Mar. 2012
	Straight bonds, payable in U.S. dollars	144,240 ($1,200,000 thousand) [60,100]	1,200	4.32-6.10	Nov. 2003-Sep. 2005
	Subordinated bonds, payable in Yen	240,000	1,997	1.95-2.62	Jun. 2010-Jun. 2012
	Subordinated bonds, payable in Euro Yen	286,800	2,386	0.6125-2.72	Sep. 2008-Perpetual
	Subordinated bonds, payable in U.S. dollars	108,059 ($899,000 thousand)	899	5.93-8.10	Mar. 2009-Jun. 2012
Consolidated subsidiaries:	Straight bonds, payable in Yen	48,504 [18,585]	403	0.08-10.00	Jan. 2003-Aug. 2022
	Straight bonds, payable in U.S. dollars	8,145 ($68,000 thousand)	68	2.05-7.35	Jun. 2005-Jun. 2011
	Straight bonds, payable in other foreign currency	4,484	37	4.35-5.61	May 2004-Jul. 2013
	Subordinated bonds, payable in Yen	636,660	5,297	0-5.98	Mar. 2005-Perpetual
	Subordinated bonds, payable in U.S. dollars	129,215 ($1,075,000 thousand)	1,075	2.86-8.50	Jun. 2009-Perpetual
	Subordinated bonds, payable in other foreign currency	2,293	19	5.49-7.50	Perpetual
		¥ 3,441,137	$28,628		

* Figures in ( ) are the balances in the original currency of the foreign currency denominated bonds, and figures in [ ] are the amounts to be redeemed within one year.

The redemption schedule within five years on bonds at March 31, 2003 is shown as follows:

Millions of yen				
1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
¥108,685	¥381,518	¥617,635	¥401,124	¥420,788

Millions of U.S. dollars				
1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
$904	$3,174	$5,138	$3,337	$3,501

14. Other Liabilities

Other liabilities at March 31, 2003 consisted of the following:

March 31, 2003	Millions of yen	Millions of U.S. dollars
Accrued expenses	¥ 119,257	$ 992
Unearned income	163,312	1,359
Income taxes payable	32,518	271
Financial derivatives	729,487	6,069
Other	907,424	7,549
	¥1,952,000	$16,240

15. Land Revaluation Excess

SMBC revaluated its own land for business activities in accordance with the ‘‘Law Concerning Land Revaluation’’ (the ‘‘Law’’) effective March 31, 1998 and the law concerning amendment of the Law effective March 31, 2001. The income taxes corresponding to the net unrealized gains are deferred and reported in ‘‘Liabilities’’ as ‘‘Deferred tax liabilities for land revaluation,’’ and the net unrealized gains, net of deferred taxes, are reported as ‘‘Land revaluation excess’’ in ‘‘Stockholders’ equity’’.

Certain consolidated subsidiaries revaluated their own land for business activities in accordance with the Law. The income taxes corresponding to the net unrealized gains (losses) are deferred and reported in ‘‘Liabilities’’ or ‘‘Assets’’ as ‘‘Deferred tax liabilities for land revaluation’’ or ‘‘Deferred tax assets for land revaluation’’ and the net unrealized gains (losses), net of deferred taxes, are reported as ‘‘Land revaluation excess’’ in ‘‘Stockholders’ equity’’.

Date of the revaluation

SMBC: March 31, 1998 and March 31, 2002

Certain consolidated subsidiaries: March 31, 1999 and March 31, 2002.

Method of revaluation (provided in Article 3-3 of the Law)

SMBC: Fair values were determined by applying appropriate adjustments for land shape and timing of appraisal to the values specified in Article 2-3, 2-4 or 2-5 of the Enforcement Ordinance of the Law concerning Land Revaluation (the Enforcement Ordinance No. 119) effective March 31, 1998.

Certain consolidated subsidiaries: Fair values were determined based on the values specified in Article 2-3 and 2-5 of the Enforcement Ordinance No. 119.

16. Minority Interests

SB Treasury Company, L.L.C., a subsidiary of SMBC, issued floating noncumulative preferred securities, totaling $1,800 million in February 1998. SB Equity Securities (Cayman), Limited, a subsidiary of SMBC, issued floating noncumulative preferred securities, totaling ¥340,000 million in February and March 1999. Sakura Preferred Capital (Cayman) Limited, a subsidiary of SMBC, issued noncumulative preferred securities, totaling ¥283,750 million in December 1998 and March 1999. These subsidiaries are consolidated and the preferred securities are accounted for as minority interests.

17. Stockholders' Equity

Capital stock consists of common stock and preferred stock. Common stock and preferred stock at March 31, 2003 are as follows:

Number of shares	Authorized	Issued and outstanding
Common stock	100,000,000	54,811,805
Preferred stock (Type 1)	67,000	67,000
Preferred stock (Type 2)	100,000	100,000
Preferred stock (Type 3)	800,000	800,000
Preferred stock (Type 4)	250,000	—
Preferred stock (Type 5)	250,000	—
Preferred stock (Type 6)	300,000	—
Total	101,767,000	55,778,805

At the merger on March 31, 2003, SMBC issued 67,000 shares of Preferred stock (Type 1), 100,000 shares of Preferred stock (Type 2), 800,000 shares of Preferred stock (Type 3) and 52,070,185 shares of Common stock.

All of the preferred stock is noncumulative and nonparticipating for dividend payments, and shareholders of the preferred stock are not entitled to vote at a general meeting of shareholders except when the bill to pay the prescribed dividends to shareholders is not submitted to the general meeting of shareholders or the bill to pay the prescribed dividends to shareholders is rejected at the general meeting of shareholders. Annual dividends per share of preferred stock (Type 1, 2, 3) are paid to shareholders by ¥10,500, ¥28,500 and ¥13,700, respectively.

As for liquidation distribution, shareholders of preferred stock (Type 1, 2, 3) receive ¥3,000 thousand, ¥3,000 thousand and ¥1,000 thousand per share, respectively, and do not have the right to participate in any further liquidation distribution.

SMBC may, at any time, purchase and retire them out of earnings available for distribution to the shareholders.

Shareholders of preferred stock (Type 1, 2, 3) may convert the preferred stock into common stock at any time excluding certain periods, from the issuance date to February 26, 2009, from August 1, 2005 to February 26, 2009 and from the issuance date to September 30, 2009, respectively, in each case subject to certain adjustments. The preferred stock (Type 1, 2) outstanding on February 26, 2009 will be mandatorily converted into common stock at the conversion ratio of ¥3,000 thousand divided by the higher of ¥500 thousand and the average market price of Sumitomo Mitsui Financial Group, Inc.'s common stock for a certain period preceding February 26, 2009. The preferred stock (Type 3) outstanding on September 30, 2009 will be mandatorily converted into common stock at the conversion ratio of ¥1,000 thousand divided by the higher of ¥258,330 and the average market price of Sumitomo Mitsui Financial Group, Inc.'s common stock for a certain period preceding September 30, 2009.

18. Fees and Commissions

Fees and commissions for the year ended March 31, 2003 consisted of the following:

Year ended March 31, 2003	Millions of yen	Millions of U.S. dollars
Fees and commissions (income):		
Deposits and loans	¥ 29,797	$ 248
Remittances and transfers	113,396	943
Securities-related business	30,822	256
Agency	15,325	127
Safe deposits	4,978	41
Guarantees	28,462	237
Credit card business	86,145	717
Investment trusts	18,349	153
Other	96,957	807
	¥424,235	$3,529
Fees and commissions (expenses):		
Remittances and transfers	¥ 21,789	$ 181
Other	52,467	437
	¥ 74,257	$ 618

19. Trading Income

Trading income for the year ended March 31, 2003 consisted of the following:

Year ended March 31, 2003	Millions of yen	Millions of U.S. dollars
Trading profits:		
Gains on trading securities	¥ 9,190	$ 77
Gains on trading-related financial derivatives	196,924	1,638
Other	381	3
	¥206,496	$1,718
Trading losses:		
Losses on securities related to trading transactions	¥ 725	$ 6

20. Other Operating Income

Other operating income for the year ended March 31, 2003 consisted of the following:

Year ended March 31, 2003	Millions of yen	Millions of U.S. dollars
Gains on foreign exchange transactions	¥ 12,868	$ 107
Gains on financial derivatives	10,971	91
Gains on sale of bonds	179,757	1,496
Gains on redemption of bonds	61	1
Lease-related income	606,529	5,046
Other	136,847	1,138
	¥947,036	$7,879

21. Other Income

Other income for the year ended March 31, 2003 consisted of the following:

Year ended March 31, 2003	Millions of yen	Millions of U.S. dollars
Gains on sale of stocks and other securities	¥ 75,122	$ 625
Gains on money held in trust	540	5
Equity in earnings of affiliates	1,703	14
Gains on disposition of premises and equipment	5,578	46
Collection of written-off claims	1,833	15
Gains on return of the entrusted portion of employee pension fund	4,413	37
Other	77,348	644
	¥166,541	$1,386

22. Other Operating Expenses

Other operating expenses for the year ended March 31, 2003 consisted of the following:

Year ended March 31, 2003	Millions of yen	Millions of U.S. dollars
Losses on sale of bonds	¥ 39,140	$ 325
Losses on redemption of bonds	351	3
Losses on devaluation of bonds	2,362	20
Bond issuance costs	1,767	15
Lease-related expenses	543,446	4,521
Other	134,125	1,116
	¥721,193	$6,000

23. Other Expenses

Other expenses for the year ended March 31, 2003 consisted of the following:

Year ended March 31, 2003	Millions of yen	Millions of U.S. dollars
Write-off of loans	¥ 364,605	$ 3,033
Losses on sale of stocks and other securities	169,144	1,407
Losses on devaluation of stocks and other securities	509,205	4,236
Losses on money held in trust	4,017	33
Transfer to reserve for possible losses on loans sold	16,672	139
Losses on delinquent loans sold	162,494	1,352
Losses on disposition of premises and equipment	38,877	324
Amortization of unrecognized net transition obligation for employee retirement benefits	23,158	193
Losses on disposal of software	15,014	125
Other	43,832	365
	¥1,347,022	$11,207

24. Income Taxes

(1) Significant components of deferred tax assets and liabilities at March 31, 2003 were as follows:

March 31, 2003	Millions of yen	Millions of U.S. dollars
Deferred tax assets:		
Reserve for possible loan losses	¥ 922,031	$ 7,671
Write-off of securities	568,077	4,726
Net operation loss carryforwards	442,212	3,679
Write-off of loans	324,328	2,698
Reserve for employee retirement benefits	109,851	914
Net unrealized losses on other securities	10,713	89
Depreciation	9,425	79
Reserve for possible losses on loans sold	8,335	69
Other	91,906	765
Subtotal	2,486,882	20,690
Valuation allowance	(537,897)	(4,475)
Total deferred tax assets	¥1,948,985	$16,215
Deferred tax liabilities:		
Leveraged lease	¥ (48,754)	$ (406)
Gains on securities contributed to employee retirement benefits trust	(25,328)	(211)
Undistributed earnings of subsidiaries	(10,614)	(88)
Other	(22,706)	(189)
Total deferred tax liabilities	(107,403)	(894)
Net deferred tax assets	¥1,841,581	$15,321

(2) A reconciliation of the effective income tax rate reflected in the accompanying consolidated statement of operations to the statutory tax rate for the year ended March 31, 2003 was as follows:

Statutory tax rate	38.62%
Valuation allowance	(24.23)%
Change of the effective statutory tax rate due to the revision of the local tax law	11.51%
Other	1.79%
Effective income tax rate	27.70%

(3) With the implementation of the "Metropolitan ordinance regarding the imposition of enterprise taxes through external standards taxation on banks in Tokyo" (Tokyo Metropolitan Ordinance No. 145, April 1, 2000) ("the metropolitan ordinance"), enterprise taxes that were hitherto levied on taxable income are now levied on gross banking profit.

On October 18, 2000, Sakura Bank and Sumitomo Bank filed a lawsuit with the Tokyo District Court against the Tokyo metropolitan government and the Governor of Tokyo seeking to void the metropolitan ordinance. They won the case eventually entirely on March 26, 2002 with a decision of the Tokyo District Court in the Bank's favor, on the grounds that the metropolitan ordinance was illegal. The District Court ordered the metropolitan government to return to the Banks advance tax payments of ¥16,633 million ($138 million) and also awarded to the Banks damages of ¥200 million ($2 million). On March 29, 2002, the metropolitan government lodged an appeal with the Tokyo High Court against the decision, and on April 9, 2002, the plaintiff banks at the first trial including the Bank also lodged an appeal. The Bank won the second-trial case eventually on January 30, 2003 with a decision of the Tokyo High Court in SMBC's favor, on the grounds that the metropolitan ordinance was illegal. The High Court ordered the metropolitan government to return to SMBC advance tax payments of ¥36,175 million ($301 million). On February 10, 2003, the metropolitan government lodged a final appeal with the Supreme Court against the decision, and on February 13, 2003, the plaintiff banks at the first trial including SMBC also lodged a final appeal.

It is the opinion of SMBC that the metropolitan ordinance is both unconstitutional and illegal. SMBC has asserted this opinion in the courts and the matter is still in litigation. The fact that during this fiscal year SMBC has applied the same treatment as in the previous year, accounting for enterprise taxes through external standards taxation on banks in Tokyo in accordance with the metropolitan ordinance, is because SMBC has deemed it appropriate at this stage to continue with the same accounting treatment as before. This accounting treatment does not constitute in any way an admission on the part of SMBC either of the constitutionality or of the legality of the metropolitan ordinance.

With the implementation of the metropolitan ordinance, enterprise taxes relating to banks in Tokyo were recorded in ''Other expenses'' in the amounts of ¥16,833 million ($140 million) for the year ended March 31, 2001 (sum of Sakura Bank and Sumitomo Bank), ¥19,862 million ($165 million) for the year ended March 31, 2002 and ¥18,269 million ($152 million) for the year ended March 31, 2003. As a result, ''Income (loss) before income taxes'' for the each fiscal year decreased (increased) by the corresponding amount as compared with the previous standards under which enterprise taxes were levied on taxable income. There is no impact on ''Income taxes, current'' as compared with the previous standards under which enterprise taxes were levied on taxable income. Consequently, stockholders' equity decreased by ¥32,495 million ($270 million). Since the enterprise taxes in question are not included in the calculations for accounting for tax effects, there was a decrease in ''Deferred tax assets'' of ¥98,703 million ($821 million) as compared with the amount that would have been included if the enterprise taxes had been levied on taxable income instead of gross profits. There was also a decrease in ''Deferred tax liabilities for land revaluation'' of ¥3,236 million ($27 million), and consequently stockholders' equity decreased by ¥95,467 million ($794 million).

With the implementation of the ''Municipal Ordinance regarding the imposition of enterprise taxes through external standards taxation on banks in Osaka'' (Osaka Municipal Ordinance No. 131, June 9, 2000) (''the municipal ordinance''), enterprise taxes which were hitherto levied on taxable income are now levied on gross banking profit.

On April 4, 2002, the Bank filed a lawsuit with the Osaka District Court against the Osaka municipal government and the Governor of Osaka seeking to void the municipal ordinance. With the implementation of the ''Revision of Municipal Ordinance regarding the imposition of enterprise taxes through external standards taxation on banks in Osaka'' (Osaka Municipal Ordinance No. 77, 2002) (''the revised municipal ordinance 2002'') on May 30, 2002, and the implementation of the ''Revision of Municipal Ordinance regarding the imposition of enterprise taxes through external standards taxation on banks in Osaka'' (Osaka Municipal Ordinance No. 14, 2003) (''the revised municipal ordinance 2003'') on April 1, 2003, the special treatment regarding the tax basis is to be applicable from the fiscal year starting on April 1, 2003. The enterprise taxes which the banks should pay to Osaka municipal government this term are subject to the supplementary provision 2 of the revised municipal ordinance 2003, which provides the banks shall pay the enterprise taxes based on the lesser of gross banking profit or taxable income. SMBC, therefore, is planning to file and pay the enterprise taxes based on taxable income. The fact that SMBC is planning to file and pay the enterprise taxes according to the revised municipal ordinance does not constitute in any way an admission on the part of SMBC either of the constitutionality or of the legality of the revised municipal ordinance 2002 and 2003 as well as the municipal ordinance. Since the enterprise taxes in question are not included in the calculations for accounting for tax effects, there was a decrease in ''Deferred tax assets'' of ¥48,699 million ($405 million) as compared with the amount that would have been included if the enterprise taxes had been levied on taxable income instead of gross profits. There was also a decrease in ''Deferred tax liabilities for land revaluation'' of ¥1,575 million ($13 million), and consequently stockholders' equity decreased by ¥47,124 million ($392 million).

(4) With the implementation of the ''Revision of the Local Tax Law'' (Legislation No. 9, 2003) on March 31, 2003, the tax basis of enterprise taxes, which was stipulated as ''taxable income and liquidation income'' by the 12th paragraph of Article 72 of the Local Tax Law before the revision, is to be a combination of ''amount of added value,'' ''amount of capital'' and ''taxable income and liquidation income'' from the fiscal year starting April 1, 2004. The enterprise taxes that have tax bases of the ''amount of added value'' and the ''amount of capital'' are not pertinent to the enterprise taxes that have tax bases of income-related amounts. The ''Revision of the Local Tax Law'' also stipulates that the metropolitan ordinance and the municipal ordinance are to be abolished from the fiscal year starting April 1, 2004.

In connection with the "Revision of the Local Tax Law," the effective statutory tax rate that SMBC and its domestic consolidated subsidiaries use in the calculations of deferred tax assets and liabilities from the fiscal year starting April 1, 2004 was changed, and thus, there was an increase in "Deferred tax assets" of ¥65,124 million ($542 million) and a decrease in "Income taxes, deferred" of ¥65,278 million ($543 million). There was also an increase in "Deferred tax liabilities for land revaluation" of ¥2,609 million ($22 million) and a decrease in "Land revaluation excess" of ¥2,621 million ($22 million).

As for SMBC, the effective statutory tax rate used in the calculations of deferred tax assets and liabilities was changed from 38.62% to 40.46%. As a result, there was an increase in "Deferred tax assets" of ¥67,657 million ($563 million) and a decrease in "Income taxes, deferred" of the same amount. There was also an increase in "Deferred tax liabilities for land revaluation" of ¥2,634 million ($22 million) and a decrease in "Land revaluation excess" of the same amount.

25. Employee Retirement Benefits

(1) Outline of employee retirement benefits

SMBC and consolidated subsidiaries in Japan have contributory funded defined benefit pension plans such as contributory pension plans, qualified pension plans and lump-sum severance indemnity plans. They may grant additional benefits in cases where certain requirements are met when employees retire. SMBC and some consolidated subsidiaries in Japan contributed certain marketable equity securities to an employee retirement benefit trust. Some domestic consolidated subsidiaries received an approval from Minister of Health, Labor and Welfare for exemption from future retirement benefit obligations with respect to the entrusted portion of employee pension fund.

(2) Projected benefit obligation

March 31, 2003	Millions of yen	Millions of U.S. dollars
Projected benefit obligation(A)	¥(1,147,793)	$(9,549)
Pension assets(B)	718,888	5,981
Unfunded projected benefit obligation(C)=(A)+(B)	(428,904)	(3,568)
Unrecognized net obligation from initial application of the new accounting standard(D)	42,668	355
Unrecognized net actuarial gain or loss(E)	346,134	2,880
Unrecognized prior service costs(F)	(52,701)	(439)
Net amount recorded on the consolidated balance sheet(G)=(C)+(D)+(E)+(F)	(92,802)	(772)
Prepaid pension cost (other assets)(H)	—	—
Reserve for employee retirement benefits(G)–(H)	¥ (92,802)	$ (772)

(3) Pension expenses

March 31, 2003	Millions of yen	Millions of U.S. dollars
Service cost	¥ 26,163	$ 218
Interest cost on projected benefit obligation	34,772	289
Expected return on plan assets	(32,219)	(268)
Amortization of net obligation from initial application of the new accounting standard	23,158	193
Amortization of unrecognized net actuarial gain or loss	24,547	204
Amortization of prior service costs	(6,583)	(55)
Other (non-recurring additional retirement allowance paid and other)	9,811	82
Pension expenses	¥ 79,650	$ 663
Gains on return of the entrusted portion of employee pension fund	(4,413)	(37)
Total	¥ 75,237	$ 626

(4) Assumptions

The principal assumptions used in determining benefit obligation and pension expenses at or for the year ended March 31, 2003 were as follows:

(a) Discount rate: 1.7% to 3.0%

(b) Expected rate of return on plan assets: 0.0% to 5.0%

(c) Allocation of estimated amount of retirement benefits:
Allocated to each period by the straight-line method

(d) Term to amortize prior service costs: Mainly 10 years

(e) Term to amortize unrecognized net actuarial gain or loss: Mainly 10 years

(f) Term to amortize unrecognized net obligation from initial application of new accounting standard: Mainly 5 years

26. Lease Transactions

(1) Financing leases

(a) Lessee side

A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value for financing leases without transfer of ownership at March 31, 2003 was as follows:

	Millions of yen		
March 31, 2003	Equipment	Other	Total
Acquisition cost	¥55,751	¥9,420	¥65,171
Accumulated depreciation	27,163	4,413	31,577
Net book value	¥28,587	¥5,007	¥33,594

	Millions of U.S. dollars		
March 31, 2003	Equipment	Other	Total
Acquisition cost	$464	$78	$542
Accumulated depreciation	226	37	263
Net book value	$238	$41	$279

Future minimum lease payments excluding interests at March 31, 2003 were as follows:

March 31, 2003	Millions of yen	Millions of U.S. dollars
Due within one year	¥10,536	$ 88
Due after one year	24,178	201
	¥34,714	$289

Total lease expenses for the year ended March 31, 2003 were ¥3,738 million ($31 million). Assumed depreciation charges for the year ended March 31, 2003 amounted to ¥3,440 million ($29 million). Assumed depreciation charges is calculated using the straight-line method over the lease term of the respective assets without salvage values. The difference between the minimum lease payments and the acquisition costs of the lease assets represents interest expenses. The allocation of such interest expenses over the lease term is computed using the effective interest method. Interest expenses for the year ended March 31, 2003 amounted to ¥279 million ($2 million).

(b) Lessor side

	Millions of yen		
March 31, 2003	Equipment	Other	Total
Acquisition cost	¥38,239	¥1,869	¥40,109
Accumulated depreciation	22,365	965	23,331
Net book value	¥15,873	¥ 903	¥16,777

	Millions of U.S. dollars		
March 31, 2003	Equipment	Other	Total
Acquisition cost	$318	$16	$334
Accumulated depreciation	186	8	194
Net book value	$132	$ 8	$140

Future lease payments receivable excluding interests at March 31, 2003 were as follows:

March 31, 2003	Millions of yen	Millions of U.S. dollars
Due within one year	¥ 6,043	$ 50
Due after one year	11,550	96
	¥17,594	$146

Total lease income for the year ended March 31, 2003 was ¥374,816 million ($3,118 million). Depreciation charges for the year ended March 31, 2003 amounted to ¥306,999 million ($2,554 million). Interest income represents the difference between the additional amount of the lease payments receivable and estimated salvage values, and the acquisition costs of the lease assets. The allocation of such interest income over the lease term is computed using the effective interest method. Interest income for the year ended March 31, 2003 amounted to ¥70,330 million ($585 million).

(2) Operating leases

(a) Lessee side

Future minimum lease payments at March 31, 2003 were as follows:

March 31, 2003	Millions of yen	Millions of U.S. dollars
Due within one year	¥ 16,530	$137
Due after one year	93,241	776
	¥109,772	$913

(b) Lessor side

Future lease payments receivable at March 31, 2003 were as follows:

March 31, 2003	Millions of yen	Millions of U.S. dollars
Due within one year	¥172	$ 1
Due after one year	436	4
	¥609	$ 5

Future lease payments receivable of ¥3,162 million ($26 million) on the lessor side referred to in (1) and (2) above were pledged as collateral for borrowings at March 31, 2003.

27. Loan Commitments

Commitment line contracts on overdrafts and loans are agreements to lend to customers when they apply for borrowing, to a prescribed amount, as long as there is no violation of any condition established in the contracts. The amount of unused commitments was ¥28,977,879 million ($241,081 million), and the amount of unused commitments whose original contract terms are within one year or unconditionally cancelable at any time was ¥26,272,078 million ($218,570 million) at March 31, 2003.

Since many of these commitments are expected to expire without being drawn upon, the total amount of unused commitments does not necessarily represent actual future cash flow requirements. Many of these commitments have clauses that SMBC and consolidated subsidiaries can reject an application from customers or reduce the contract amounts in case economic conditions are changed, SMBC and consolidated subsidiaries need to secure claims or other events occur. In addition, SMBC and consolidated subsidiaries request the customers to pledge collateral such as premises and securities at the conclusion of the contracts, and take necessary measures such as grasping customers' financial positions, revising contracts when need arises and securing claims after the conclusion of the contracts.

28. Market Value of Marketable Securities

(1) Securities

The market value of marketable securities at March 31, 2003 was as follows:

In addition to ''Securities'' in the consolidated balance sheet, trading securities, negotiable certificates of deposit and commercial paper in ''Trading assets'', negotiable certificates of deposit in ''Deposits with banks'', and commercial papers and claims on loan trust in ''Commercial paper and other debt purchased'' are included in the amounts of following tables.

(i) Securities classified as trading purposes

March 31, 2003	Millions of yen	Millions of U.S. dollars
Consolidated balance sheet amount	¥1,434,190	$11,932
Losses included in profit/loss during the year	1,096	9

(ii) Bonds classified as held-to-maturity with market value

March 31, 2003	Millions of yen				
	Consolidated balance sheet amount	Market value	Net unrealized gains (losses)	Gains	Losses
Japanese government bonds	¥311,381	¥315,404	¥4,023	¥4,023	¥ —
Japanese local government bonds	23,091	23,920	828	828	—
Corporate bonds	—	—	—	—	—
Other	41,246	42,244	998	1,104	105
Total	¥375,719	¥381,569	¥5,850	¥5,956	¥105

March 31, 2003	Millions of U.S. dollars				
	Consolidated balance sheet amount	Market value	Net unrealized gains (losses)	Gains	Losses
Japanese government bonds	$2,591	$2,624	$34	$34	$—
Japanese local government bonds	192	199	7	7	—
Corporate bonds	—	—	—	—	—
Other	343	351	8	9	1
Total	$3,126	$3,174	$49	$50	$ 1

Note: Market value is calculated by using market prices at the fiscal year-end.

(iii) Other securities with market value

March 31, 2003	Millions of yen				
	Acquisition cost	Consolidated balance sheet amount	Net unrealized gains (losses)	Gains	Losses
Stocks	¥ 3,140,569	¥ 2,978,296	¥(162,273)	¥110,464	¥272,737
Bonds	¥14,024,014	¥14,135,179	¥ 111,164	¥117,093	¥ 5,928
Japanese government bonds	12,516,061	12,590,255	74,193	79,479	5,286
Japanese local government bonds	342,798	352,112	9,314	9,415	101
Corporate bonds	1,165,153	1,192,811	27,657	28,197	540
Other	¥ 4,476,699	¥ 4,500,337	¥ 23,637	¥ 42,900	¥ 19,262
Total	¥21,641,283	¥21,613,812	¥ (27,471)	¥270,458	¥297,929

	Millions of U.S. dollars				
March 31, 2003	Acquisition cost	Consolidated balance sheet amount	Net unrealized gains (losses)	Gains	Losses
Stocks	$ 26,128	$ 24,778	$ (1,350)	$ 919	$ 2,269
Bonds	$ 116,672	$ 117,597	$ 924	$ 974	$ 50
Japanese government bonds	104,127	104,744	617	661	44
Japanese local government bonds	2,852	2,929	77	78	1
Corporate bonds	9,693	9,924	230	235	5
Other	$ 37,244	$ 37,440	$ 197	$ 357	$ 160
Total	$ 180,044	$ 179,815	$ (229)	$ 2,250	$ 2,479

Notes: 1. Market value is calculated as follows:

Stocks	Average market price during one month before the fiscal year-end
Bonds and other	Market price at the fiscal year-end

2. Other securities with market value are considered as impaired if the market value decreases significantly below the acquisition cost and such decline is not considered as recoverable. The market value is recognized as the consolidated balance sheet amount and the amount of write-down is accounted for as valuation loss (impaired) for the current fiscal year. Valuation loss for this fiscal year was ¥496,396 million ($4,130 million). The rule for determining "significant decline" is as follows and is based on the classification of issuing company under self-assessment of assets.

Bankrupt/Effectively bankrupt/Potentially bankrupt issuers	: Market value is lower than acquisition cost.
Issuers requiring caution	: Market value is 30% or more lower than acquisition cost.
Normal issuers	: Market value is 50% or more lower than acquisition cost.

Bankrupt issuers: Issuers that are legally bankrupt or formally declared bankrupt.
Effectively bankrupt issuers: Issuers that are not legally bankrupt but regarded as substantially bankrupt.
Potentially bankrupt issuers: Issuers that are perceived to have a high risk of falling into bankruptcy.
Issuers requiring caution; Issuers that are identified for close monitoring.
Normal issuers: Issuers other than the above four categories of issuers.

(iv) Bonds sold during the year ended March 31, 2003 that are classified as held-to-maturity

There are no corresponding items.

(v) Other securities sold during the year ended March 31, 2003

	Millions of yen			Millions of U.S. dollars		
Year ended March 31, 2003	Sales amount	Gains on sales	Losses on sales	Sales amount	Gains on sales	Losses on sales
Other securities	¥37,709,925	¥232,122	¥190,364	$313,726	$1,931	$1,584

(vi) Securities with no available market value

	Millions of yen	Millions of U.S. dollars
March 31, 2003	Consolidated balance sheet amount	Consolidated balance sheet amount
Bonds classified as held-to-maturity		
Nonlisted foreign securities	¥ 652	$ 5
Other	7,463	62
Other securities		
Nonlisted foreign securities	¥ 358,590	$2,983
Nonlisted bonds	1,176,885	9,791
Nonlisted stocks (excluding OTC stocks)	331,173	2,755
Other	137,045	1,140

(vii) Change of classification of securities

There are no corresponding items.

(viii) Redemption schedule of other securities with maturities and bonds classified as held-to-maturity

March 31, 2003	Millions of yen			
	1 year or less	1 to 5 years	5 to 10 years	Over 10 years
Bonds	¥3,482,933	¥ 8,134,230	¥3,769,404	¥ 260,826
Japanese government bonds	3,303,625	6,306,161	3,034,984	256,865
Japanese local government bonds	11,935	138,933	223,723	612
Japanese corporate bonds	167,372	1,689,135	510,695	3,349
Other	¥ 354,501	¥ 2,879,026	¥ 765,527	¥ 880,974
Total	¥3,837,434	¥11,013,257	¥4,534,931	¥1,141,800

March 31, 2003	Millions of U.S. dollars			
	1 year or less	1 to 5 years	5 to 10 years	Over 10 years
Bonds	$ 28,976	$ 67,672	$ 31,359	$ 2,170
Japanese government bonds	27,484	52,464	25,249	2,137
Japanese local government bonds	99	1,156	1,861	5
Japanese corporate bonds	1,393	14,052	4,249	28
Other	$ 2,949	$ 23,952	$ 6,369	$ 7,329
Total	$ 31,925	$ 91,624	$ 37,728	$ 9,499

(2) Money held in trust

(i) Money held in trust classified as trading purposes

March 31, 2003	Millions of yen	Millions of U.S. dollars
Consolidated balance sheet amount	¥1,629	$14
Gains included in profit/loss during the year	12	0

(ii) Money held in trust classified as held-to-maturity

There are no corresponding items.

(iii) Other money held in trust

March 31, 2003	Millions of yen				
	Acquisition cost	Consolidated balance sheet amount	Net unrealized gains (losses)	Gains	Losses
Other money held in trust	¥23,044	¥23,000	¥ (44)	¥510	¥ 555

March 31, 2003	Millions of U.S. dollars				
	Acquisition cost	Consolidated balance sheet amount	Net unrealized gains (losses)	Gains	Losses
Other money held in trust	$192	$191	$(0)	$4	$4

(3) Net unrealized gains (losses) on other securities and other money held in trust

March 31, 2003	Millions of yen	Millions of U.S. dollars
Net unrealized gains (losses)	¥ (27,585)	$(229)
Other securities	(27,540)	(229)
Other money held in trust	(44)	(0)
(+) Deferred tax assets	994	8
Net unrealized gains (losses) on other securities (before following adjustment)	¥ (26,590)	$(221)
(–) Minority interests	¥ (5,003)	$ (42)
(+) Parent company's interest in net unrealized gains (losses) on valuation of other securities held by affiliates accounted for by the equity method	27	(0)
Net unrealized gains (losses) on other securities	¥ (21,559)	$(179)

Note: Net unrealized gains (losses) included foreign currency translation adjustments on nonmarketable securities denominated in foreign currency.

29. Derivative Transactions

(1) Interest rate derivatives

	Millions of yen			
	Contract amount		Market value	Valuation gains (losses)
March 31, 2003	Total	Over 1 year		
Transactions listed on exchange				
Interest rate futures:				
Sold	¥ 59,749,099	¥ 4,547,691	¥ (103,623)	¥ (103,623)
Bought	57,633,988	5,676,922	109,474	109,474
Interest rate options:				
Sold	¥ 1,230,739	¥ —	¥ 76	¥ 76
Bought	600,964	205,802	(99)	(99)
Over-the-counter transactions				
Forward rate agreements:				
Sold	¥ 13,389,231	¥ 590,000	¥ 1,076	¥ 1,076
Bought	3,469,855	455,000	(500)	(500)
Interest rate swaps:	¥305,031,482	¥214,079,553	¥ 250,498	¥ 250,498
Receivable fixed rate/payable floating rate	146,600,794	101,347,568	3,300,127	3,300,127
Receivable floating rate/payable fixed rate	139,298,388	98,710,883	(3,040,142)	(3,040,142)
Receivable floating rate/payable floating rate	18,990,156	13,890,272	850	850
Swaptions:				
Sold	¥ 1,720,503	¥ 798,669	¥ (35,707)	¥ (35,707)
Bought	1,523,512	1,106,731	26,355	26,355
Caps:				
Sold	¥ 5,352,002	¥ 3,331,808	¥ (4,194)	¥ (4,194)
Bought	3,616,992	2,536,627	6,682	6,682
Floors:				
Sold	¥ 317,281	¥ 207,279	¥ (7,673)	¥ (7,673)
Bought	351,199	195,322	9,027	9,027
Other:				
Sold	¥ 42,316	¥ 36,551	¥ (6,526)	¥ (6,526)
Bought	250,660	92,669	6,603	6,603
Total			¥ 251,467	¥ 251,467

	Millions of U.S. dollars			
	Contract amount		Market value	Valuation gains (losses)
March 31, 2003	Total	Over 1 year		
Transactions listed on exchange				
Interest rate futures:				
Sold	$ 497,081	$ 37,834	$ (862)	$ (862)
Bought	479,484	47,229	911	911
Interest rate options:				
Sold	$ 10,239	$ —	$ 1	$ 1
Bought	5,000	1,712	(1)	(1)
Over-the-counter transactions				
Forward rate agreements:				
Sold	$ 111,391	$ 4,908	$ 9	$ 9
Bought	28,867	3,785	(4)	(4)
Interest rate swaps:	$2,537,700	$1,781,028	$ 2,084	$ 2,084
Receivable fixed rate/payable floating rate	1,219,641	843,158	27,455	27,455
Receivable floating rate/payable fixed rate	1,158,888	821,222	(25,292)	(25,292)
Receivable floating rate/payable floating rate	157,988	115,560	7	7
Swaptions:				
Sold	$ 14,314	$ 6,645	$ (297)	$ (297)
Bought	12,675	9,207	219	219
Caps:				
Sold	$ 44,526	$ 27,719	$ (35)	$ (35)
Bought	30,091	21,103	56	56
Floors:				
Sold	$ 2,640	$ 1,724	$ (64)	$ (64)
Bought	2,922	1,625	75	75
Other:				
Sold	$ 352	$ 304	$ (54)	$ (54)
Bought	2,085	771	55	55
Total			$ 2,092	$ 2,092

Notes: 1. The above transactions are valuated at market value and the valuation gains (losses) are accounted for in the consolidated statement of operations.

Derivative transactions to which hedge accounting method is applied are not included in the amounts above. Some consolidated overseas subsidiaries account for interest rate derivatives in accordance with local accounting standards. Such transactions are not included in the amounts above, of which their net unrealized gains amount to ¥827 million ($7 million).

2. Market value of transactions listed on exchange is calculated mainly using the closing prices on the Tokyo International Financial Futures Exchange and others.

Market value of OTC transactions is calculated mainly using discounted present value and option pricing models.

(2) Currency derivatives

	Millions of yen			
	Contract amount		Market	Valuation
March 31, 2003	Total	Over 1 year	value	gains (losses)
Over-the-counter transactions				
Currency swaps	¥16,433,656	¥8,831,238	¥(39,389)	¥(39,389)
Currency swaptions				
Sold	330,238	330,238	(3,173)	(3,173)
Bought	865,005	865,005	13,724	13,724
Forward foreign exchange	¥ 2,935,846	¥ 547,699	¥ 1,518	¥ 1,518
Currency options				
Sold	¥ 56,586	¥ 13,166	¥ (1,375)	¥ (1,375)
Bought	60,441	21,575	1,585	1,585
Other				
Sold	¥ 15,310	¥ 2,855	¥ 153	¥ 153
Bought	—	—	—	—
Total			¥(26,956)	¥(26,956)

	Millions of U.S. dollars			
	Contract amount		Market	Valuation
March 31, 2003	Total	Over 1 year	value	gains (losses)
Over-the-counter transactions				
Currency swaps	$ 136,719	$ 73,471	$ (328)	$ (328)
Currency swaptions				
Sold	2,747	2,747	(26)	(26)
Bought	7,196	7,196	114	114
Forward foreign exchange	$ 24,425	$ 4,557	$ 13	$ 13
Currency options				
Sold	$ 471	$ 110	$ (11)	$ (11)
Bought	503	179	13	13
Other				
Sold	$ 127	$ 24	$ 1	$ 1
Bought	—	—	—	—
Total			$ (224)	$ (224)

Notes: 1. The above transactions are valuated at market value and the valuation gains (losses) are accounted for in the consolidated statement of operations.

The derivative transactions to which the hedge accounting method is applied and the transaction shown in Note 3 below, are not included in the amounts above. Some consolidated overseas subsidiaries account for currency derivatives in accordance with local accounting standards. Such transactions are not included in the amounts above, of which their net unrealized losses amount to ¥293 million ($2 million).

2. Market value is calculated mainly using discounted present value.

3. Forward foreign exchange and currency options which are of the following types are not included in the amounts above:

(a) Those that are revaluated at fiscal year-end and the revaluation gains (losses) are accounted for in the consolidated statement of operations.

(b) Those that are allotted to financial assets/liabilities denominated in foreign currency and whose market values are already reflected in the amount of the financial assets/liabilities on the consolidated balance sheet.

(c) Those that are allotted to financial assets/liabilities denominated in foreign currency and the financial assets/liabilities are eliminated in the process of consolidation.

The contract amount of currency derivatives which are revaluated at the consolidated balance sheet date are as follows:

	Millions of yen	Millions of U.S. dollars
March 31, 2003	Contract amount	Contract amount
Transactions listed on exchange		
Currency futures:		
Sold	¥ —	$ —
Bought	—	—
Currency options:		
Sold	¥ —	$ —
Bought	—	—
Over-the-counter transactions		
Forward foreign exchange	¥37,271,679	$310,081
Currency options:		
Sold	¥ 3,001,518	$ 24,971
Bought	3,195,840	26,588

(3) Equity derivatives

	Millions of yen			
	Contract amount			
March 31, 2003	Total	Over 1 year	Market value	Valuation gains (losses)
Transactions listed on exchange				
Stock price index futures:				
Sold	¥ —	¥ —	¥ —	¥ —
Bought	—	—	—	—
Stock price index options:				
Sold	¥ —	¥ —	¥ —	¥ —
Bought	—	—	—	—
Over-the-counter transactions				
Equity options:				
Sold	¥ 0	¥ —	¥ 0	¥ 0
Bought	0	—	(0)	(0)
Stock price index swaps:				
Receivable equity index/payable floating rate	¥ —	¥ —	¥ —	¥ —
Receivable floating rate/payable equity index	—	—	—	—
Other:				
Sold	¥477	¥ —	¥ 0	¥ 0
Bought	477	—	0	0
Total			¥ 0	¥ 0

	Millions of U.S. dollars			
	Contract amount			
March 31, 2003	Total	Over 1 year	Market value	Valuation gains (losses)
Transactions listed on exchange				
Stock price index futures:				
Sold	$ —	$ —	$ —	$ —
Bought	—	—	—	—
Stock price index options:				
Sold	$ —	$ —	$ —	$ —
Bought	—	—	—	—
Over-the-counter transactions				
Equity options:				
Sold	$ 0	$ —	$ 0	$ 0
Bought	0	—	(0)	(0)
Stock price index swaps:				
Receivable equity index/payable floating rate	$ —	$ —	$ —	$ —
Receivable floating rate/payable equity index	—	—	—	—
Other:				
Sold	$ 4	$ —	$ 0	$ 0
Bought	4	—	0	0
Total			$ 0	$ 0

Notes: 1. The above transactions are valuated at market value and the valuation gains (losses) are accounted for in the consolidated statement of operations. Derivative transactions to which the hedge accounting method is applied are not included in the amounts above.

2. Market value of transactions listed on exchange is calculated mainly using the closing prices on the Tokyo Stock Exchange. Market value of OTC transactions is calculated mainly using discounted present value and option pricing models.

(4) Bond derivatives

	Millions of yen			
	Contract amount			
March 31, 2003	Total	Over 1 year	Market value	Valuation gains (losses)
Transactions listed on exchange				
Bond futures:				
Sold	¥119,032	¥ —	¥(388)	¥(388)
Bought	129,712	—	(67)	(67)
Bond futures options:				
Sold	¥ 4,000	¥ —	¥ (8)	¥ (8)
Bought	—	—	—	—
Over-the-counter transactions				
Bond options:				
Sold	¥ 16,010	¥15,617	¥ 0	¥ 0
Bought	4,719	3,125	0	0
Total			¥(463)	¥(463)

March 31, 2003	Millions of U.S. dollars			
	Contract amount		Market value	Valuation gains (losses)
	Total	Over 1 year		
Transactions listed on exchange				
Bond futures:				
Sold	$ 990	$ —	$(3)	$(3)
Bought	1,079	—	(1)	(1)
Bond futures options:				
Sold	$ 33	$ —	$(0)	$(0)
Bought	—	—	—	—
Over-the-counter transactions				
Bond options:				
Sold	$ 133	$130	$ 0	$ 0
Bought	39	26	0	0
Total			$(4)	$(4)

Notes: 1. The above transactions are valuated at market value and the valuation gains (losses) are accounted for in the consolidated statement of operations. Derivative transactions to which the hedge accounting method is applied are not included in the amounts above.

2. Market value of transactions listed on exchange is calculated mainly using the closing prices on the Tokyo Stock Exchange. Market value of OTC transactions is calculated mainly using option pricing models.

(5) Commodity derivatives

March 31, 2003	Millions of yen			
	Contract amount		Market value	Valuation gains (losses)
	Total	Over 1 year		
Over-the-counter transactions				
Commodity swaps:				
Receivable fixed price/payable floating price	¥31,049	¥27,358	¥(1,607)	¥(1,607)
Receivable floating price/payable fixed price	31,049	27,358	2,376	2,376
Commodity options:				
Sold	¥ 6,369	¥ 4,063	¥(1,493)	¥(1,493)
Bought	6,369	4,063	1,521	1,521
Total			¥ 797	¥ 797

March 31, 2003	Millions of U.S. dollars			
	Contract amount		Market value	Valuation gains (losses)
	Total	Over 1 year		
Over-the-counter transactions				
Commodity swaps:				
Receivable fixed price/payable floating price	$258	$228	$(13)	$(13)
Receivable floating price/payable fixed price	258	228	20	20
Commodity options:				
Sold	$53	$ 34	$(13)	$(13)
Bought	53	34	13	13
Total			$ 7	$ 7

Notes: 1. The above transactions are valuated at market value and the valuation gains (losses) are accounted for in the consolidated statement of operations. Derivative transactions to which the hedge accounting method is applied are not included in the amounts above.

2. Market value is calculated based on factors such as price of the relevant commodity and contract term.

3. Commodity derivatives are transactions on oil and metal.

(6) Credit derivative transactions

	Millions of yen			
	Contract amount			
March 31, 2003	Total	Over 1 year	Market value	Valuation gains (losses)
Over-the-counter transactions				
Credit default options:				
Sold	¥ 39,823	¥22,790	¥ (1,767)	¥ (1,767)
Bought	35,625	18,592	3,153	3,153
Other:				
Sold	¥ 5,722	¥ 1,099	¥ 4,915	¥ 4,915
Bought	86,567	79,546	276	276
Total			¥ 6,578	¥ 6,578

	Millions of U.S. dollars			
	Contract amount			
March 31, 2003	Total	Over 1 year	Market value	Valuation gains (losses)
Over-the-counter transactions				
Credit default options:				
Sold	$331	$190	$ (14)	$ (14)
Bought	296	155	26	26
Other:				
Sold	$ 48	$ 9	$ 41	$ 41
Bought	720	662	2	2
Total			$ 55	$ 55

Notes: 1. The above transactions are valuated at market value and the valuation gains (losses) are accounted for in the consolidated statement of operations. Derivative transactions to which the hedge accounting method is applied are not included in the amounts above.

2. Market value is calculated based on factors such as the price of the reference assets and contract term.

3. "Sold" represents transactions in which the credit risk is accepted; "Bought" represents transactions in which the credit risk is transferred.

30. Segment Information

(1) Business segment information

	Millions of yen					
Year ended March 31, 2003	Banking business	Leasing	Other	Total	Elimination	Consolidated
I. Ordinary income						
(1) External customers	¥ 2,537,431	¥ 645,468	¥ 367,037	¥ 3,549,937	¥ —	¥ 3,549,937
(2) Intersegment	30,809	5,563	163,790	200,163	(200,163)	—
Total	¥ 2,568,240	¥ 651,032	¥ 530,827	¥ 3,750,100	¥ (200,163)	¥ 3,549,937
Ordinary expenses	3,131,709	629,952	450,299	4,211,961	(194,514)	4,017,446
Ordinary profit (loss)	¥ (563,468)	¥ 21,080	¥ 80,527	¥ (461,860)	¥ (5,649)	¥ (467,509)
II. Assets, depreciation and capital expenditure						
Assets	¥102,081,025	¥ 114,096	¥5,032,131	¥107,227,253	¥(4,832,616)	¥102,394,637
Depreciation	73,505	329,478	18,906	421,890	—	421,890
Capital expenditure	85,829	319,716	30,115	435,660	—	435,660

	Millions of U.S. dollars					
Year ended March 31, 2003	**Banking business**	**Leasing**	**Other**	**Total**	**Elimination**	**Consolidated**
I. Ordinary income						
(1) External customers	$ 21,110	$ 5,370	$ 3,054	$ 29,534	$ —	$ 29,534
(2) Intersegment	256	46	1,363	1,665	(1,665)	—
Total	$ 21,366	$ 5,416	$ 4,417	$ 31,199	$ (1,665)	$ 29,534
Ordinary expenses	26,054	5,241	3,746	35,041	(1,618)	33,423
Ordinary profit (loss)	$ (4,688)	$ 175	$ 671	$ (3,842)	$ (47)	$ (3,889)
II. Assets, depreciation and capital expenditure						
Assets	$849,260	$ 949	$41,865	$892,074	$(40,205)	$851,869
Depreciation	612	2,741	157	3,510	—	3,510
Capital expenditure	714	2,660	250	3,624	—	3,624

Notes: 1. The business segmentation is classified based on SMBC's internal administrative purpose.

2. "Other" includes securities, credit card, investment banking, loans, factoring, mortgage securities, venture capital, system development and information processing.

3. Ordinary income represents total income excluding gains on disposition of premises and equipment, collection of written-off claims, gain on sale of business operation and reversals of other reserves. Ordinary expenses represent total expenses excluding losses on disposition of premises and equipment, amortized cost of unrecognized net transition obligation for employee retirement benefits and other extraordinary expenses.

4. As mentioned in Note 24 "Income Taxes", the effective tax rate was changed with the implementation of the "Revision of the Local Tax Law" (Legislation No. 9, 2003) on March 31, 2003. As a result, Assets of "Banking business" increased by ¥65,768 million ($547 million) and Assets of "Other" decreased by ¥643 million ($5 million) as compared with the assets that were calculated using the former effective tax rate.

(2) Geographic segment information

	Millions of yen						
Year ended March 31, 2003	**Japan**	**The Americas**	**Europe**	**Asia and Oceania**	**Total**	**Elimination**	**Consolidated**
I. Ordinary income							
(1) External customers	¥ 3,077,413	¥ 173,224	¥ 174,353	¥ 124,945	¥ 3,549,937	¥ —	¥ 3,549,937
(2) Intersegment	66,249	48,741	32,144	26,912	174,048	(174,048)	—
Total	¥ 3,143,663	¥ 221,966	¥ 206,498	¥ 151,858	¥ 3,723,986	¥ (174,048)	¥ 3,549,937
Ordinary expenses	3,818,706	149,894	134,985	82,652	4,186,238	(168,791)	4,017,446
Ordinary profit (loss)	¥ (675,042)	¥ 72,071	¥ 71,512	¥ 69,205	¥ (462,251)	¥ (5,257)	¥ (467,509)
II. Assets	¥94,867,563	¥6,138,645	¥2,167,625	¥2,647,962	¥105,821,796	¥ (3,427,159)	¥102,394,637

	Millions of U.S. dollars						
Year ended March 31, 2003	**Japan**	**The Americas**	**Europe**	**Asia and Oceania**	**Total**	**Elimination**	**Consolidated**
I. Ordinary income							
(1) External customers	$ 25,602	$ 1,442	$ 1,451	$ 1,039	$ 29,534	$ —	$ 29,534
(2) Intersegment	552	405	267	224	1,448	(1,448)	—
Total	$ 26,154	$ 1,847	$ 1,718	$ 1,263	$ 30,982	$ (1,448)	$ 29,534
Ordinary expenses	31,770	1,247	1,123	688	34,828	(1,405)	33,423
Ordinary profit (loss)	$ (5,616)	$ 600	$ 595	$ 575	$ (3,846)	$ (43)	$ (3,889)
II. Assets	$ 789,248	$ 51,070	$ 18,033	$ 22,030	$ 880,381	$ (28,512)	$ 851,869

Notes: 1. The geographic segmentation is decided based on the degrees of following factors: geographic proximity, similarity of economic activities and relationship of business activities among regions.

2. The Americas includes the United States, Brazil and others; Europe includes the United Kingdom, France and others; Asia and Oceania includes Hong Kong, Singapore and others except Japan.

3. Ordinary income represents total income excluding gains on disposition of premises and equipment, recoveries of written-off claims, gain on sale of business operation and reversals of other reserves. Ordinary expenses represent total expenses excluding

losses on disposition of premises and equipment, amortized cost of unrecognized net transition obligation for employee retirement benefits and other extraordinary expenses.

4. As mentioned in Note 24 "Income Taxes", the effective tax rate was changed with the implementation of the "Revision of the Local Tax Law" (Legislation No. 9, 2003) on March 31, 2003. As a result, Assets of "Japan" increased by ¥65,124 million ($542 million) as compared with assets that were calculated using the former effective tax rate.

(3) Ordinary income from overseas operations

Year ended March 31, 2003	Millions of yen	Millions of U.S. dollars
Ordinary income from overseas operations (A)	¥ 472,523	$3,931
Consolidated ordinary income (B)	3,549,937	29,534
(A)/(B)	13.3%	13.3%

Note: The above table shows ordinary income from transactions of SMBC's overseas branches and overseas consolidated subsidiaries, excluding internal income.

31. Subsequent Event

Appropriations of retained earnings

The Board of Directors did not propose to pay cash dividends for the year ended March 31, 2003 and the shareholder did not express any objection to it.

32. Parent Company

(1) Nonconsolidated Balance Sheet

Sumitomo Mitsui Banking Corporation

March 31, 2003	Millions of yen	Millions of U.S. dollars
Assets		
Cash and due from banks	¥ 2,775,176	$ 23,088
Deposits with banks	513,417	4,271
Call loans and bills bought	99,774	830
Receivables under resale agreements	78,679	655
Receivables under securities borrowing transactions	1,981,243	16,483
Commercial paper and other debt purchased	92,436	769
Trading assets	3,950,372	32,865
Money held in trust	24,628	205
Securities	23,656,385	196,808
Loans and bills discounted	57,282,365	476,559
Foreign exchanges	724,771	6,030
Other assets	1,848,486	15,378
Premises and equipment	707,303	5,884
Deferred tax assets	1,814,625	15,097
Customers' liabilities for acceptances and guarantees	4,416,292	36,741
Reserve for possible loan losses	(2,074,797)	(17,261)
Total assets	**¥97,891,161**	**$814,402**
Liabilities		
Deposits	¥63,524,258	$528,488
Call money and bills sold	8,889,756	73,958
Payables under repurchase agreements	4,124,094	34,310
Payables under securities lending transactions	4,777,187	39,744
Commercial paper	50,500	420
Trading liabilities	2,425,632	20,180
Borrowed money	2,795,160	23,254
Foreign exchanges	392,727	3,267
Bonds	2,624,099	21,831
Due to trust account	5,953	50
Other liabilities	1,428,432	11,884
Reserve for employee bonuses	9,898	82
Reserve for employee retirement benefits	72,816	606
Reserve for possible losses on loans sold	17,169	143
Other reserves	18	0
Deferred tax liabilities for land revaluation	57,937	482
Acceptances and guarantees	4,416,292	36,741
Total liabilities	**¥95,611,937**	**$795,440**
Stockholders' equity		
Capital stock	559,985	4,659
Capital surplus	1,237,307	10,294
Retained earnings	414,536	3,449
Land revaluation excess	85,259	709
Net unrealized losses on other securities	(17,864)	(149)
Total stockholders' equity	**¥ 2,279,223**	**$ 18,962**
Total liabilities and stockholders' equity	**¥97,891,161**	**$814,402**

(2) Nonconsolidated Statement of Income

Sumitomo Mitsui Banking Corporation

	Year ended March 31, 2003	
	Millions of yen	Millions of U.S. Dollars
Income		
Interest income:		
Interest on loans and discounts	¥ 34,258	$ 285
Interest and dividends on securities	40,074	334
Interest on receivables under resale agreements	28	0
Interest on receivables under securities borrowing transactions	28	0
Interest on deposits with banks	458	4
Other interest income	8,066	67
Trust fees	5	0
Fees and commissions	31,783	265
Trading profits	11,704	97
Other operating income	14,702	122
Other income	45,156	376
Total income	**¥ 186,267**	**$ 1,550**
Expenses		
Interest expenses:		
Interest on deposits	¥ 6,277	$ 52
Interest on borrowings and rediscounts	4,160	35
Interest on payables under repurchase agreements	454	4
Interest on payables under securities lending transactions	1,828	15
Interest on bonds and convertible bonds	1,266	10
Other interest expenses	2,136	18
Fees and commissions	8,338	69
Trading losses	103	1
Other operating expenses	5,120	43
General and administrative expenses	36,549	304
Other expenses	13,923	116
Total expenses	**¥ 80,157**	**$ 667**
Income before income taxes	**¥ 106,109**	**$ 883**
Income taxes:		
Current	¥ 905	$ 8
Deferred	(77,836)	(648)
Net income	**¥ 183,040**	**$ 1,523**
Per share data:		
Net income	¥68,437.74	$569.37
Net income — diluted	66,527.24	553.47
Declared dividends on common stock	—	—
Declared dividends on preferred stock (Type 1)	—	—
Declared dividends on preferred stock (Type 2)	—	—
Declared dividends on preferred stock (Type 3)	—	—

Note: Nonconsolidated statement of income for the year ended March 31, 2003 does not include the Bank's profit/loss from April 1, 2002 to March 16, 2003.

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