Presentation by the president, Yoshifumi Nishikawa

Thank you very much for coming today despite your busy schedule.
First of all, I would like to speak regarding our business environment, and summarize our performance in the first half of the fiscal year, and follow this with an explanation of our financial condition, focusing on asset quality.

Our deputy president Mr. Asuke will give you the details of performance in the first half, later in the presentation.

(Page 1)
Firstly, I would like to quickly review the figures. Please look at page 1 of your handout.

Consolidated ROE (Return On Equity), a management index that our bank considers very important, was at a yearly rate of 8.0% for the first half year on a fully diluted basis. This is a 4.7% points improvement from 1999.

The core banking profit is 203.6 billion yen on a non-consolidated basis, which is close to that of the first half of last year. This surpassed our initial forecast of 180 billion yen by 23.6 billion yen.

On the other hand, our net profit is 48.4 billion yen on a non-consolidated basis, and 75.9 billion yen on a consolidated basis. This consolidated profit is a 22.4 billion yen increase over the first half of the previous fiscal year, and also a 25.9 billion yen increase on our first estimate. The 2 major reasons for this are:

1. Improvement of the income of an affiliated company, Daiwa Securities SB Capital Markets Co. Ltd.,
2. Profit from the sale of stocks, accepting the secondary offering from Goldman Sachs Group Inc.

These initiatives contributed to a 8% raise in ROE in the first half of the year. However, even without the Goldman Sachs' sale, our ROE improved from 3.3% of year 1999 to 4.1%.

Expenses have been smoothly reduced. For instance, the expense rate has improved to 43.8% on a non-consolidated basis. The cost of the merger is starting to realize, however, it has not yet had a substantial impact.

In summary, we can say that our results are essentially as expected, or slightly better than expected. However, the core banking profit of approximately 200 billion yen, including the additional dividend from our overseas subsidiaries, is not what we had hoped. Although it is difficult to generate a significant increase in profit in the current difficult economic situation, we are committed to further improving our income in the second half of the fiscal year and in the year following the merger.

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I would like to summarize the economic environment of the first half of the year and tell you actions the bank has taken. Please refer to page 2.

As you can see, in the first half of the year there were many factors detrimental to the bank's business. But these factors can be interpreted as indications of a stabilizing economy, so our actions have to take this into consideration.

The document lists sluggish fund demand, the fall of the price of land and stock prices, and other factors in the business environment. The most critical factor for our bank was Kumagai Gumi, one of our largest debtors, asking us to forgive almost 234 billion yen, of their debt to us.

Many companies have undergone restructuring and there has been considerable winnowing out. Construction companies in particular have been forced to take drastic action. We have had extensive discussions about the possible recovery of Kumagai Gumi, and we have asked them to make every effort to recover on their own. We have investigated a range of possible responses, including the certainty of collecting our debt after Kumagai Gumi's debt is forgiven. In the end, we decided to grant their request to forgive their debt. I would like to emphasize here that we are confident of having done the right thing to protect the value of our shares.

Later, I will discuss in more detail the impact of this decision on our performance.

I believe that now is the time for us to prepare for economic recovery by strengthening our income structure under these circumstances. Because of our gain from the sale of stocks and unrealized capital gains from Goldman Sachs, we are very fortunate to be strong enough in view of financial stock. It is clear that, without this strength in income flow, such financial stock makes little sense. Look at the right column of your document. As you see, I would like to improve our whole structure, in order to improve asset efficiency. To do this, I will focus on these two priorities:

1. Moving to an income structure that does not depend solely on the volume of loans, and
2. Reducing of assets with high risks by the selling off of stock cross- holdings.

(Page 3)
Please let me review what I have told you so far from in view of our current financial situation. Please have a look at page 3. This is my evaluation of our current financial structure.

I have shown you this before, with the shadowed parts in the chart applying to the three priorities agreed on with Sakura Bank on our merging:

1. Cost reduction – Working through the cost-reduction plans both banks had before they contemplated merging one year earlier than originally scheduled.
2. Resolution of problem assets.
3. Downsizing stock portfolio

Among these three priorities, our cost-reduction plan is well under way and the downsizing of our stock portfolio is steadily proceeding. The detailed figures will be presented by deputy president Asuke later on.

Let me now focus on the remaining priority, raising the quality of our assets.

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Please look at page 4. I would like to look in a little more detail at our credit costs in the first half of the year and the prospect throughout the coming year.

Kumagai Gumi's request had a big impact, obviously. Let me try to put this into perspective to the extent possible, in view of our duty to respect confidentiality.

We are considering accepting Kumagai Gumi's request to be forgiven their debt to us. In fact, we have already decided to recognize that 100% of the requested amount, 234 billion yen, is not to be recovered. Hence, we transferred the same amount to specific reserves.

We have prepared ourselves to deal with Kumagai Gumi's contingency by maintaining a cushion in our general reserves. Because this cushion in our general reserves is transferred back in exchange for in addition to specific reserves, credit cost realized in this half was approximately 120 billion yen.

Leaving aside the Kumagai Gumi debt for the moment, the credit cost caused by some debtors' failing business, the reduced value of collateral, and other factors is about 80 billion yen. Although this figure means this half fiscal year is less than successful, I am confident we are on the way to a more stabilized situation.

Our business forecast will be presented by deputy president Asuke later, but I would like to mention here our forecast of credit cost.

As you can see, our estimated credit cost for the last half of the year is approximately 150 billion yen, which is almost twice much the credit cost of 80 billion yen for the first half of the year excluding the Kumagai Gumi's bad debt. This figure is based on our determination to build in a more conservative assessment of our position before the merger.

This assessment includes sale of the credits that had not gone through in the first half of the year and also a precautionary review of our debtors' current situation.

In any case, our actions now will directly affect next year's figures.

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Lastly, I would like to review briefly the current status and the future prospect of problem loans.

Please have a look at page 5.

As you can see, problem loans as defined by the Financial Reconstruction Law have increased by 247.5 billion yen in comparison to the end of March 2000. In particular, doubtful loans have increased by 487.5 billion yen.

Obviously, the main contributor to these figures is Kumagai Gumi.

At the end of March, part of Kumagai Gumi's debt was included in our problem loans however, this time around, all of their debt, a total of 500 billion yen including collateral coverage and the 234 billion yen which remains to be written off, has been included as doubtful loans.

Please note their our financial situation will improve when major lenders approve Kumagai Gumi's recovery plan, which includes the forgiving of certain debts in the second half of the year. As a result, collection of the remaining debts can be secured. Of course, our forgiving of these debts is based on our being able to collect on our remaining debts. By the end of the fiscal year, the loans to Kumagai Gumi should not be considered problem loans, although this depends on the results of asset assessment in the second half of the year.

Please understand that the large amount of problem loans of the first half of this year is a very special case brought about by Kumagai Gumi. If we exclude this, our doubtful loans have decreased compared to the end of March, along with a significant decrease in problem loans as a whole.

I can say that our problem loans will decrease considerably in the second half of the year because Kumagai Gumi will no longer be an issue, and in addition, we will proceed to bulk sales and other financial disposal.

That's all from me. Now I would like to pass the mike over to deputy president Asuke. I will answer your questions later on.

Presentation by deputy president, Akio Asuke

(Page 6)
Let me give you more details on our mid-term performance and business prospects for the year 2000.

Please refer to page 6.

Our operating profit before including the transfer to general reserve for possible loan losses is 203.6 billion yen. This is a small decrease of 1.4 billion yen compared to the same time last year. Looking at the reasons for this decrease, we see that gross banking profit decreased by 3.9 billion yen in national operations and by 3 billion yen in international operations, while cost reductions created a 5.4 billion yen surplus, which covered this decrease.

Please look at the gross profit section. The main cause of the decrease in gross domestic profit is the decreased in net interest income by 11.8 billion yen. Loans decreased due to a drop in the demand for funding, which is compensated for by the interest-margin increase. However, the interest margin is reduced because of the approaching due dates for the profitable bonds, which was a part of yen's ALM. As a whole, net interest income decreased.

On the other hand, thanks to various new initiatives, the profit from fees and commissions increased by 3.8 billion yen, adding 17% additional profit. I will give you details later on.

Now I would like to talk about our gross international profit. As promised in the last meeting, the figures on the chart that you are looking at have been rearranged. They are different from those described in the document in the flash report of financial results. In other words, net interest income, net trading income and other income, have been adjusted for income from associated foreign exchange transactions.

As you see on this chart, the substantial net interest income after the adjustment has decreased by 7 billion yen. Although 30 billion yen of overseas subsidiaries' dividends is included, the result is a decrease, because the profit in foreign currency money dealing has sharply declined, due to the rise in overseas interest rates.

The profit from fees and commissions has increased by 3.8 billion yen, which is a 43% increase.

Lastly, operating expenses continued to decrease. Even though the cost for the merger is beginning to have an effect, that cost is only 0.3 billion yen this term. Personnel and general expenses were reduced, which made it possible to reduce total expenses by 5.4 billion yen compared to last year, a reduction of more than 3%.

These are the details of the operating net income.

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I would like you to have a look at page 7. I will explain in more detail the performance of volume and yield scenario that caused the decrease of 11.8 billion yen in domestic net interest income, which you have seen on the previous page.

First of all, with regards to loans, the volume has decreased by 950 billion yen, as you can see. The yield has decreased by 4 basis points.

The yield were reduced due to declining market interest rates. The yield was also influenced by the turnover effect, which emerges when fixed rate loans mature. In such difficult circumstances, the yield has been kept to a decrease of 4 basis points by the improved loan spread to small, medium, and large enterprises, and this is an improvement of 5 basis points compared to the ’99 mid-term average interest margin. This improvement of the spread to clients has compensated for the decreased volume from the point of view of profit. The short-term prime rate was raised by 12.5 basis points in the first half of the year, which had almost no influence on the average yield of the first half of the year.

Two issues to be addressed regarding the volume of marketable securities and the fluctuation of yield are: first of all, short-term national government bonds were accumulated as collateral in order to cope with the RTGS for current deposit accounts with the Bank of Japan. The second issue is the increase in the balance by almost 2 trillion yen. This is due to changes in the accounting rules for sales transactions under the re-purchase agreement, as dictated by the new accounting standards for financial instruments. As a result, the volume has increased while the yield has declined, which is the main cause of the decrease in funding profits.

Since the mid-term introduction of the new accounting standards for financial instruments, derivative transactions, to which hedge accounting is applied, are displayed in figures, which reflect the net of income and expenses. Please note that not all banks have reflected this change in their financial results. You cannot simply compare the figures. For example, our bank’s yield on interest-earning assets is 1.62% this mid-term. However, if this is calculated in the conventional way, it would be 1.92%. The yield is higher when the bank uses the conventional system.

Due to this change, the interest earned and interest paid are lower, which leads to a lower yield on interest-earning assets and the interest paid for interest payable liabilities. Also please note that the mid-term financial results of ’99 were re-calculated in line with the new accounting standards for the sake of comparison.

(Page 8)
Let me finish analyzing our gross profit, and move on to expenses. Please turn to page 8.

The expense rate has improved to 43.8%, a 1.6% points decrease from 45.4% in ’99. I believe that this level is strikingly low among the large banks. Our expense rate has been continuously improving since its peak of 55.2% in ’97.

As the expense rate is likely to be influenced by the gross profit level, it has to be looked at along with the expense level. Expenses were 159.6 billion yen in the first half of the year, which is a 3% decrease compared to the same time the last year.

New investments have been restrained because of the upcoming merger. The cost of the merger is still very little at this stage, which contributes to low expenses. It is a good sign, though, that among personnel expenses and general expenses have been decreasing as well.

It is not always advantageous for the expense rate to be low. It is important to have at hand sufficient budget for well-selected strategic investments.

The lower half of the handout shows the breakdown of the cost reduction. Please note the cost reduction by group. The cost reduction in the Consumer Banking Group is 3.8 billion yen, which also occupies the greater share of the reduction. The Middle Market Banking Group had a cost reduction of 1.6 billion yen.

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Please move on to page 9.

I would like to address some important items with regards to the core banking profit by the business groups. Please look at the numbered column on the right.

Please look at number 1, the gross profit of the Consumer Banking Group, which has decreased by 2.4 billion yen. This is caused by the fact that housing loans in the narrow sense could not cover the decrease in other consumer loans, especially apartment loans. As new apartment loans nowadays are strictly controlled, the balance should be naturally decreased by repayments. We have to put more effort in housing loans in the narrow sense. Some measures are being taken in this regard. For example, our range of products was expanded and we increased promotion directed towards tie-ups with home building companies.

The fees related to investment trusts remain at 1.6 billion yen, because upfront fees didn’t grow much due to the stagnant sales of equity investment-trusts influenced by a sluggish stock market. Even in combination with the Middle Market Banking Group, it is only 1.8 billion yen. The influence from the market cannot be discounted. Please be assured, we are working on this matter at the moment. Looking at our performance in October and November in the last half year, we can see signs of recovery.

Because expenses have been steadily reduced, profit after expenses has increased.

Next is the gross profit of the Middle Market Banking Group, number 2 here. This group has increased its gross profit by 6.5 billion yen, and reduced expenses by 1.6 billion yen, which is a fairly good performance. If you look at the details of the gross profit, the improved interest margin has essentially compensated for the reduced loan volume. Non-interest income, such as from money transfers, electronic banking, and syndicate arrangement fees is also steadily increasing.

The International Banking Group, number 3, has increased fees relating to loans due to additional assets in the first half of the year. The syndicate arrangement fees from Europe and Asia have increased in particular.

Number 4, the Treasury Group’s profit has declined as anticipated. This can be attributed to:

1. The increased interest rate of the US dollar and Euro and
2. The turnover effect of the fund position and bond portfolio.

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Please have a look at page 10.

The net profit from our stock portfolio is 139.5 billion yen. As you see in the right-hand side of your handout, the unwinding of stock cross-holdings reached 180 billion yen, based on the ledger value.

Although we have our own target figures for stock sales, making them public is against our policy, to protect our relationship with our clients and to minimize the impact on the market. This is why we will not announce our goal for this fiscal year. I can tell you, however, that we intend to make a steady reduction in outstanding stocks while factoring in the extent of the risk brought about by the fluctuating price of the stock in our portfolio.

Unrealized capital gains are calculated at 438.5 billion yen. Please refer to the attached appendix for details.
If such gains are included in the capital account as specified by the new mark-to-the-market accounting method, the capital increase would be 255.6 billion yen on a non-consolidated basiss and 361.4 billion yen on a consolidated basis.

With the introduction of the new enterprise tax, we calculate we will have to pay 3.7 billion yen to the Tokyo Metropolitan Government. Since the Osaka Prefectual Government has also decided to introduce this tax, our deferred income tax has decreased by 26.6 billion yen, which you can see in the income-tax section.

Introduction of new accounting of employee's retirement benefits has brought an amortization cost of 10.1 billion yen for the mid-term, so 20.2 billion yen for the whole year. Please consult the appendix for the influence of this figure on B/S and P/L.

(Page 11)
That's all for our non-consolidated results. I would now like to direct your attention to the outline of financial results on a consolidated basis. Please turn to page 11.

Here, there are two points to note.

The first point is the difference in gross profit from the non-consolidated results.

On a consolidated basis, Sumitomo Credit Services Company Ltd contributed to profit with fees and commissions, while SB Leasing Company Ltd and others contributed to other profit. The ratio of non-interest income to gross profit on a consolidated basis improved from 29.4% to 31.4% compared to fiscal year 99, which represents a 2% points increase.

The second point is that both operating profit and net income have increased. This is largely due to the following two factors:
1. Profit from the sale of Goldman Sachs stock was added and

2. Improvement in income from Daiwa SBCM.

Thanks to the sale of Goldman Sachs stock, there was an addition of 109.4 billion yen to our operating profit, and a 65.8 billion yen addition to the net income of the overseas subsidiary which dealt with Goldman Sachs investments. This profit, however, might more appropriately be included as possible dividends in our consolidated financial results. Because of this, our deferred income-tax liabilities were conservatively calculated, anticipating the tax to be levied on these dividends. This tax will not be imposed if we can receive a foreign tax reduction, but we decided to add this tax to be on the safe side, in line with the guidelines on consolidated financial accounts. As a result, the contribution of that profit to our consolidated net income is 36.7 billion yen.

Unrealized capital gains from the Goldman Sachs stock that we currently own was approximately 170 billion yen at the end of September.

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Please look at page 12.

The BIS capital ratio is 11.33%, which is not much different from the figure at the end of last term, and also at the same time last year.

Tier I has monetary disadvantages due to the introduction of the new accounting standards, but these disadvantages are more than compensated for by the consolidated net income. As you can see on the right-hand side of the handouts, the main change was that the foreign currency-translation adjustments account has been included in the capital account since the mid term, which accounts for a loss of 60.7 billion yen.

Tier II has also decreased by 162.6 billion yen because the general reserves have decreased by 133.4 billion yen.

We estimate that the BIS ratio would be 11.85% if we include the unrealized capital gains.

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Finally, let me briefly review our prospects for the fiscal year 2000. Please refer to page 13.

There are 2 matters worth noting here.

The first matter is the non-consolidated core banking profit. We have not altered our initial forecast of 360 billion yen. In comparison to the first half's figure, we expect a substantial decrease in the second half. There are three main factors that may cause this decrease:

1. An additional dividend of 30 billion yen from an overseas subsidiary was included in the first half year, so a decrease is anticipated in the second half.
2. The interest margin will be reduced because profitable assets such as bonds and swaps will mature in the treasury business.
3. The cost for the merger will increase in the second half year.

Even when these matters are taken into consideration, we believe 360 billion yen is a very conservative figure. We internally regard this as our lowest estimate. Hence, we take it for granted that both gross profit and expenses will in fact exceed this figure.

The second matter is credit cost. As Mr. Nishikawa explained in his presentation, our forecast of this is 150 billion yen. We will make every effort to trim all future credit costs after the merger. We forecast that the credit cost will be 150 billion yen, considering the cost for resolving the problem assets before the merger.

This concludes my presentation. Mr. Nishikawa and I would appreciate any opinions or questions you may have to have at this time.