Announcement of Fiscal 2000 Financial Results

I would now like to explain our financial results for the fiscal year 2000. We have given you copies of the former Sumitomo and Sakura's *Consolidated Financial Results for Fiscal 2000 ended March 31, 2001* and *Nonconsolidated Financial Results for Fiscal 2000 ended March 31, 2001*, as well as the *Financial Results: Fiscal Year 2000 Supplementary Information*, the latter which has figures for both the former banks, as well as combined figures. (Note: All of these materials are uploaded on the same page.)

Let's look at the report titled *Financial Results: Fiscal Year 2000 Supplementary Information*, which sums up the financial results. I will start with the former Sumitomo Bank.

Please look at the "Financial Result" on page 1. Line 22, Banking Profit (excluding transfer to general reserve for possible loan losses), was 447.7 billion yen, for a year-over-year rise of 58.2 billion yen. 50.2 billion yen of this increase in profit came from higher Gross Banking Profit, while the remaining 8.0 billion yen came from reductions in Expenses and Bond Issue Costs. Of the 50.2 billion yen rise in Gross Banking Profit, 17.8 billion yen came from an increase in Gross Domestic Profit, while the other 32.4 billion yen was attributable to higher Gross International Profit.

There were two main factors contributing to the growth in Line 3, Gross Domestic Profit. First, Net Fees and Commissions were up by 6.2 billion yen, thanks to an increase in fees and commissions from electronic banking and money transfers. Second, Gains on Bonds were 7.1 billion yen higher than the previous year.

Meanwhile, the biggest factor contributing to the large rise in Line 10, Gross International Profit, was a 33.5 billion yen rise in Net Interest Income, primarily because of dividends from an overseas subsidiary. There was also a 5.9 billion yen increase in Net Fees and Commissions, which was partly due to growth in syndications revenue.

The increase in Net Trading Profit and decrease in Other Operating Income were mainly due to accounting rules for foreign exchange risk hedging with respect to foreign-denominated trading income, under which the amount transferred between trading profits/losses and gains/losses on foreign exchange transactions increased by approximately 26 billion yen.

Let's look at Line 17, Expenses. Expenses fell year-over-year by 4.6 billion yen. Personnel Expenses decreased by 3.6 billion yen, largely due to a reduction in employees. Integration of branches and operation centers produced efficiency gains which more than offset the merger-related expenses, enabling a 0.6 billion yen decrease in Non-personnel Expenses. The remainder of the decrease in Expenses was due to a 0.4 billion yen fall in Taxes.

Let's move on to Other Operating Profit and Loss. Line 28, Total Credit Cost, was 558.0 billion yen. The credit cost consisted of 500.9 billion yen in Write-off of Loans, 146.7 billion yen in Transfer to Specific Reserve, 19.1 billion yen in Transfer to Reserve for Losses on Loans Sold, 11.4 billion yen in Losses on Loans Sold to CCPC, and 16.5 billion yen in Losses on Sale of Delinquent Loans. On the other hand, there was a 4.0 billion yen Transfer from the Loan Loss Reserve for Specific Overseas Countries and a 132.6 billion yen Transfer from the General Reserve for Possible Loan Losses.

When Sumitomo announced its interim financial results on November 21 of last year, it projected Total Credit Cost in fiscal 2000 of 350.0 billion yen, so the actual Total Credit Cost exceeded the projection by 208.0 billion yen. The reasons for this were debt forgiveness to support customers, increased reserves in preparation for final dispositions in fiscal 2001 and beyond, greater-than-expected asset deterioration, and a decline in the value of collateral.

Meanwhile, looking at Line 37, Gains and Losses on Stock, there were net gains of 259.9 billion yen. This reflects Gains on Sales of Stock of 335.5 billion yen, Losses on Sales of Stocks of 37.8 billion yen, for a net gain of 297.7 billion yen, in addition to 37.8 billion yen in Losses on Devaluation of Stocks which were based on self-assessment of the stock portfolio.

Additionally, a 23.3 billion yen gain on the establishment of a trust for employee retirement benefits was separately included in Line 42, titled “Other.” One other operating loss was the Enterprise Tax by the Tokyo Metropolitan Government, which was 8.1 billion yen.

All of the above items added up to an Operating Profit of 168.4 billion yen.

Moving on to Extraordinary Profit and Loss, a net loss of 14.5 billion yen was reported on Line 45, Gains and Losses on Disposition of Premises and Equipment. This was largely due to restructuring measures; in particular, losses on sales of employee housing, and losses related to the disposition of closed branches.

Meanwhile, a 20.2 billion yen extraordinary loss was reported for the Amortization of Net Obligation Under New Accounting Standards for Employees’ Retirement Benefits. The new standards were introduced in fiscal 2000.

As shown on Line 49, Income before Income Taxes was 134.1 billion yen. This is a 14.4 billion yen decrease compared with the previous year.

As indicated on Line 50, Current Income Taxes were 7.8 billion yen. Line 51, Deferred Income Taxes resulting from tax benefit accounting, was 70.6 billion yen. 26.4 billion yen of the Deferred Income Taxes were a result of the reduction of deferred tax assets, which accompanied a decrease in the effective tax rate brought about by the introduction of enterprise taxes on banking industries by the Osaka Prefectural Government.

Looking at the bottom line, we see Net Income of 55.7 billion yen.

Let's look at the consolidated financial results on page 2. As shown at the bottom of the page, Sumitomo Bank had 84 consolidated subsidiaries and 29 affiliated companies accounted for by the equity method.

A major contribution to consolidated earnings was made when a consolidated subsidiary, SMBC Capital Markets, sold shares of Goldman Sachs. Affiliate Daiwa Securities SMBC also had a good performance which boosted consolidated Operating Profit, which as shown on Line 15 was 310.7 billion yen, an increase of 73.4 billion yen over the previous year. Net Income also grew by 21.6 billion yen to 83.5 billion yen. As I mentioned earlier, non-consolidated Net Income was 55.7 billion yen, so consolidated Net Income exceeded non-consolidated Net Income by 27.8 billion yen.

I would now like to move on and make some comments on some other supplementary figures. Let's take a look at page 4 for an explanation of Evaluation Gains and Losses on Securities.

Changes in the accounting standards for financial instruments took effect in fiscal 2000. The new rules require that securities holdings be categorized by their trading purpose, and depending on the trading purpose, different evaluation methods are applied. These categories and evaluation methods are shown at the top of the page.

The two charts at the middle and bottom of the page show Sumitomo's non-consolidated and consolidated Evaluation Gains and Losses. On a non-consolidated basis, there were net losses of 89.6 billion yen. Please note that the loss on equity holdings was calculated based on the average market value over the month of March. If the evaluation losses were calculated based on the market value of equity holdings on March 31, the evaluation loss would be only 10.6 billion yen.

Compared to the previous fiscal year, non-consolidated evaluation gains decreased by 990.9 billion yen. This is attributable to the overall fall in equity prices.

Meanwhile, evaluation gains or losses on securities whose trading purpose is categorized as "Other Securities" were not yet directly charged to capital in fiscal 2000. However, if we had adopted fair value accounting, the evaluation losses of such securities directly charged to capital, including Other Money Held in Trust, would have been 54.1 billion yen.

Moving on to the consolidated evaluation gains and losses at the bottom of the page, we can see there are net gains of 51.7 billion yen. This is 141.3 billion yen higher than the non-consolidated net gains, primarily because SMBC Capital Markets had approximately 125 billion yen in evaluation gains on its holdings of Goldman Sachs shares. Meanwhile, the amount of evaluation gains on Other Securities directly charged to capital if fair value accounting had been applied would have been 27.6 billion yen.

Next, I would like to discuss the figures for Employee Retirement Benefits, which can be found on the tables on page 5. As of March 31 this year, the Unrecognized Net

Obligation from the Change of Accounting Method was 80.7 billion yen on a non-consolidated basis and 86.0 billion yen on a consolidated basis. There was Unrecognized Actuarial Net Loss of 49.5 billion yen on a non-consolidated basis and 50.6 billion yen on a consolidated basis.

Now, I would like to point out the Consolidated Capital Ratio on page 6. As you can see, the preliminary estimate of the Consolidated Capital Ratio as of March 31 of this year is 10.94%, a decrease of 0.66% from a year earlier.

Let's move on to page 7, which sums up the loan portfolio at the former Sumitomo Bank. The table shows the Classification of Borrowers under Self-Assessment, and for each classification, the amount of assets disclosed based on the Financial Reconstruction Law, the amounts of assets categorized to each classification, and the balance of the Reserve for Possible Loan Losses.

I will not touch upon the details now, but to give a brief summary, 100% reserves were provided for the unsecured portion of Bankrupt and Quasi-Bankrupt Assets, 54.5% reserves were provided for the 769.4 billion yen unsecured portion of Doubtful Assets, and 15.0% reserves were provided for the unsecured portion of Substandard Assets. Meanwhile, for Normal Assets, the average reserve ratio for Borrowers Requiring Caution was 2.9% and the average reserve ratio for Normal Borrowers was 0.3%.

For your reference, the subsequent pages have information about non-consolidated and consolidated Risk-Monitored Loans, the Loan Portfolio Classified by Industry, and Overseas Loans.

In accordance with the Emergency Policy Package announced this April, we are going to disclose our progress in disposition of problem assets from the second half of fiscal 2000, in line with the requirements of the Financial Services Agency. Please see page 11 for the overview.

The amount of Problem Assets based on the Financial Reconstruction Law (excluding substandard assets) as at September 30, 2000 was 2,020.5 billion yen. These assets will be treated as "existing" problem assets. During the second half of fiscal 2000, we off-balanced 1,076.5 billion yen from these existing assets. Consequently, 944.0 billion yen remained as problem assets at March 31, 2001.

Details of the progress in decreasing problem assets are shown in (2). For your reference, "Disposition by Borrower's Liquidation" refers to loans and other assets written-off or cut-off in liquidation-type procedures taken at corporate insolvency (e.g. bankruptcy and special liquidation). "Re-constructive Disposition" refers to loans and other assets cut-off in reorganization-type procedures taken at corporate insolvency (e.g. corporate reorganization or civil rehabilitation), as well as forgiven debts.

Meanwhile, 518.5 billion yen of assets were newly categorized as Bankrupt and Quasi-Bankrupt Assets or Doubtful Assets during the second half of fiscal 2000. As a result, total problem assets (excluding substandard assets) decreased by 558.0 billion yen during the second half of fiscal 2000, and problem assets as at March 31, 2001 became 1,462.5 billion yen.

We will continue our effort to decrease problem assets, based on the principles of off-balancing stated in the Emergency Policy Package.

We have included three more items for the former Sumitomo Bank, which are shown on page 17. First, Debt Forgiveness during fiscal 2000—the Bank forgave loans to 7 different borrowers totaling 347.1 billion yen. The borrowers included Kumagai Gumi, Sumigin Guarantee, and Royal Hotel.

Second, I would like to sum up the Enterprise Taxes by the Tokyo and Osaka Governments. Sumitomo had a burden of 8.1 billion yen with respect to the Tokyo tax in fiscal 2000. The projection for SMBC's Osaka tax in fiscal 2001 is 8.0 billion yen.

I would now like to review the fiscal 2000 results for the former Sakura Bank.

Please turn to page 18 for the non-consolidated results. Line 22, Banking Profit (excluding transfer to general reserve for possible loan losses), was 355.4 billion yen, a year-over-year increase of 41.9 billion yen. 18.5 billion yen of the rise in profit came from an increase in Gross Banking Profit, and the other 23.4 billion yen came from decreases in Expenses and Bond Issue Costs. Of the 18.5 billion yen increase in Gross Banking Profit, 10.7 billion yen was due to higher Gross Domestic Profit, while the remaining 7.8 billion yen came from an increase in Gross International Profit.

The main factor behind the 10.7 billion yen rise in Line 3, Gross Domestic Profit, was a 6.7 billion yen rise in Net Fees and Commissions, which in large part came from an increase in commissions from sales of investment trusts. By the way, the decrease in Net Interest Income and increase in Other Operating Income was a result of new accounting standards for financial instruments. Income that had previously been reported as Net Interest Income was instead reported as Other Operating Income.

Meanwhile, the rise in Gross International Profit was largely due to higher Net Trading Profit, which increased year-over-year by 10.1 billion yen.

I should also mention that the rise in Net Interest Income and fall in Other Operating Income was due to accounting for transactions involving multiple currencies, under which the amounts transferred between Net Interest Income and gains/losses on foreign exchange transactions increased by approximately 28 billion yen.

Now let's look at Expenses, which are shown on Line 17. Expenses decreased year-over-year by 22.8 billion yen. A drastic, extensive review of expenses produced a 15.1 billion yen decrease in Non-personnel Expenses, and Personnel Expenses fell by 6.1 billion yen, mainly because of staff reductions. The rest of the decrease in expenses came from a 1.6 billion yen decrease in Taxes.

I would now like to review Other Operating Profit and Loss. Looking at Line 28, Total

Credit Cost was 261.1 billion yen. Breaking down the credit cost, there was 240.5 billion yen in Write-off of Loans, 9.8 billion yen in Transfer to Specific Reserve, 33.9 billion yen in Transfer to Reserve for Losses on Loans Sold, 20.4 billion yen in Losses on Loans Sold to CCPC, 8.5 billion yen in Losses on Sale of Delinquent Loans, and a 4.0 billion yen Transfer to the Loan Loss Reserve for Specific Overseas Countries. On the other hand, there was a 56.0 billion yen Transfer from the General Reserve for Possible Loan Losses.

Sakura's projection made at its announcement of the interim financial results on November 21 last year was for Total Credit Cost of 220.0 billion yen in fiscal 2000, so the actual Total Credit Cost was 41.1 billion yen higher than the projection. This increase was mainly due to additional disposal of bad loans to mitigate future risk, in light of worsening corporate earnings amid the stagnant economy and the declining value of collateral.

Looking at Gains and Losses on Stock, on Line 37, there was a net gain of 51.5 billion yen. This gain consisted of Gains on Sales of Stock of 160.7 billion yen, Losses on Sales of Stocks of 28.9 billion yen, for a net gain of 131.8 billion yen, as well as Losses on Devaluation of Stocks based on self-assessment of the stock portfolio, totaling 80.3 billion yen.

There was also a 29.6 billion yen gain on the establishment of a trust for employee retirement benefits, which was separately included in Line 42, titled "Other." Also reported as an operating loss was the Enterprise Tax by the Tokyo Metropolitan Government, which was 8.7 billion yen.

All of the above resulted in 190.7 billion yen in Operating Profit.

I would now like to move on to Extraordinary Profit and Loss. A 16.1 billion yen net Loss on Disposition of Premises and Equipment was reported. This was attributable to restructuring measures, especially losses on sales of employee housing and losses related to the disposition of closed branches.

There was also a 36.4 billion yen extraordinary loss for the Amortization of Net Obligation Under New Accounting Standards for Employees' Retirement Benefits.

As you can see on Line 49, Income before Income Taxes was 139.1 billion yen.

Current Income Taxes, which are shown as item number 50, were 1.8 billion yen. Item 51, Deferred Income Taxes resulting from tax benefit accounting, was 55.1 billion yen. 5.6 billion yen of the Deferred Income Taxes were a result of the reduction of deferred tax assets, which accompanied a decrease in the effective tax rate brought about by the introduction of enterprise taxes on banking industries by the Osaka Prefectural Government.

As shown on the last line, Net Income was 82.2 billion yen.

I would now like to move on to the consolidated financial results on page 19. As you can see at the bottom of the page, Sakura Bank had 65 consolidated subsidiaries and 12 affiliated companies accounted for by the equity method.

Consolidated Gross Profit grew by 65.3 billion yen to 886.3 billion yen, largely due to the performance of the parent. General and Administrative Expenses were 490.6 billion yen, a slight increase of 3.1 billion yen. Total Credit Cost declined by 180.1 billion yen to 346.6 billion yen.

After adding in the Gains and Losses on Stocks and the Net Income and Loss from Unconsolidated Entities by the Equity Method, Operating Profit was 183.9 billion yen, a year-over-year increase of 47.4 billion yen. After including extraordinary profits and losses, income taxes, and Minority Interests in Net Income, we arrive at Net Income of 48.9 billion yen, a decrease of 13.6 billion yen over the previous year.

Let's move on to some other supplementary figures for the former Sakura Bank. First of all, I would like to take a look at Banking Profit per Employee and the Overhead Ratio, which are shown on page 20. You can see that both of these indicators of efficiency improved, thanks to increased profit and progress with restructuring measures.

Now let's take a look at the Evaluation Gains and Losses on Securities shown on page 21. You can see from the table that on a non-consolidated basis, there were net evaluation losses on securities of 342.4 billion yen. Please note that if the calculation had been based on the market value on the last day of the fiscal year, the net evaluation losses would be only 247.5 billion yen. Compared with the previous fiscal year, net evaluation gains fell by 1,005.2 billion yen. This was primarily due to a decline in unrealized gains on equity holdings caused by the falling stock market.

As with Sumitomo, evaluation gains or losses on securities whose trading purpose is categorized as "Other Securities" were not yet directly charged to capital in fiscal 2000. However, the evaluation losses of such securities directly charged to capital if we had adopted fair value accounting, including Other Money Held in Trust, would have been 210.5 billion yen.

Moving on to the consolidated evaluation gains and losses at the bottom of the page, we can see there are net losses of 352.8 billion yen. These net losses exceed the non-consolidated net losses by 10.4 billion yen. Consolidated evaluation losses of such securities directly charged to capital would have been 212.1 billion yen.

Next, let's review the figures for Employee Retirement Benefits, which are shown on page 22. As of March 31 this year, the Unrecognized Net Obligation from Change of Accounting Method was 145.4 billion yen on a non-consolidated basis and 153.7 billion yen on a consolidated basis. Unrecognized Actuarial Net Loss was 64.8 billion yen on a non-consolidated basis and 71.0 billion yen on a consolidated basis. The consolidated Unrecognized Prior Service Cost, which is deductible from the obligation, was 1.7 billion yen.

Now, I would like to look at the Consolidated Capital Ratio on page 23. As you can see, the Consolidated Capital Ratio as of March 31 of this year stood at 11.31%, a decline of 1.22% from a year earlier. The decrease can be attributed to a reduction in the issuance of subordinated debt.

Let's now go over the loan portfolio at the former Sakura Bank, which is summarized on page 24. The chart shows the Classification of Borrowers under Self-Assessment, and for each classification, the amount of assets disclosed based on the Financial Reconstruction Law, the amounts of assets categorized to each classification, and the balance of the Reserve for Possible Loan Losses.

In Sakura's case, 100% reserves were provided for the unsecured portion of Bankrupt and Quasi-Bankrupt Assets, 71.3% reserves were provided for the unsecured portion of Doubtful Assets, and 15.0% reserves were provided for the unsecured portion of Substandard Assets. Meanwhile, for Normal Assets, the average reserve ratio for Borrowers Requiring Caution was 3.4% and the average reserve ratio for Normal Borrowers was 0.14%.

For your reference, the following pages have information about non-consolidated and consolidated Risk-Monitored Loans, the Loan Portfolio Classified by Industry, and Overseas Loans.

I would like to touch upon our progress in decreasing problem assets, which is shown on page 28.

The amount of Problem Assets based on the Financial Reconstruction Law (excluding substandard assets) as at September 30, 2000 was 1,169.1 billion yen. These assets will be treated as "existing" problem assets. During the second half of fiscal 2000, we off-balanced 287.3 billion yen from these existing assets. Consequently, 881.8 billion yen remained as problem assets at March 31, 2001.

Details of the progress in decreasing problem assets are shown in (2).

Meanwhile, 188.8 billion yen of assets were newly categorized as Bankrupt and Quasi-Bankrupt Assets or Doubtful Assets during the second half of fiscal 2000. As a result, total problem assets (excluding substandard assets) decreased by 98.5 billion yen during the second half of fiscal 2000, and problem assets as at March 31, 2001 became 1,070.6 billion yen.

We will continue our effort to decrease problem assets, based on the principles of off-balancing stated in the Emergency Policy Package.

Please turn to page 34. As with the former Sumitomo Bank, there are three more items that we were requested to include. First, let's look at Debt Forgiveness during fiscal 2000. Sakura forgave a total of 102.8 billion yen in debt to 7 different borrowers, including Mitsui Construction.

Next, I would like to review the Enterprise Taxes by the Tokyo and Osaka Governments. The former Sakura Bank had a burden of 8.7 billion yen with respect to the Tokyo tax in fiscal 2000. As I stated earlier, the fiscal 2001 projection for SMBC's Osaka tax is 8.0 billion yen.

Financial Highlights for FY2000 (Sakura and Sumitomo Combined)

For your reference, beginning on page 35 the financial highlights for the two former banks are reported on a combined basis for the last fiscal year. I would now like to focus on the Summary of Merger Succession shown on page 40.

Prior to the succession of Sakura's assets, liabilities and capital accompanying the April 1 merger, we applied certain accounting to strengthen the financial base of the bank. First, the unrealized losses on Sakura's securities classified as "Other Securities" were revaluated at fair value and transferred to SMBC. The same treatment was applied to land, which was revaluated at fair value before being transferred. Also, Sakura's Unrecognized Net Obligation on Employee Retirement Benefits was fully provisioned prior to the merger.

Since this accounting treatment increased Deferred Tax Assets by 268.7 billion yen, the result was that 427.0 billion was deducted from the Stockholders' Equity of the former Sakura Bank before its transfer to SMBC.

Sakura's Book Value as of March 31 and its Succeeded Book Value are shown in the upper table on page 40. The bottom table shows unrealized gains and losses after the merger succession, which are based on the market value at the end of the fiscal 2000.

Fiscal 2001 Earnings Projections

I would now like to review our projections for earnings in the fiscal year 2001, which you can see on page 41.

On a non-consolidated basis, we project 710.0 billion yen in Banking Profit (excluding transfer to general reserve for possible loan losses), 295.0 billion yen in Operating Profit, and 150.0 billion yen in Net Income.

On a consolidated basis, we project 410.0 billion yen in Operating Profit and 180.0 billion yen in Net Income.

Meanwhile, we project that Total Credit Cost, on a non-consolidated basis, will be 400.0 billion yen.

We also estimate that total dividends per share of common stock paid in fiscal 2001 will be 6 yen, consisting of a 3 yen interim dividend and a 3 yen term-end dividend. For further details, please refer to the last page of *Sumitomo Bank's Nonconsolidated Financial Results for Fiscal 2000 ended March 31*.