Announcement of Financial Results for the First Half of Fiscal 2001

I would now like to explain our financial results for the first half of fiscal 2001. We have given you copies of *Consolidated Financial Results for the First Half of Fiscal 2001 ended September 30, 2001* and *Nonconsolidated Financial Results for the First Half of Fiscal 2001 ended September 30, 2001*, as well as the *Financial Results: First Half of Fiscal 2001 Supplementary Information*.

Let's look at the report titled *Financial Results: First Half of Fiscal 2001 Supplementary Information*, which sums up the financial results.

Before looking into the details, I would first like to note that numbers for the six-month period ended Sep. 30, 2000 (first half of fiscal 2000) and fiscal 2000 are combined numbers of former Sakura Bank and Sumitomo Bank, unless otherwise noted.

Please look at the "Financial Result" on page 1. This is an overview of the non-consolidated financial results. Line 21, Banking Profit (excluding transfer to general reserve for possible loan losses) was 515.8 billion yen, for a year-over-year rise of 145.3 billion yen. 131.8 billion yen of this increase in profit came from higher Gross Banking Profit, while the remaining 13.5 billion yen came from reductions in Expenses. Breaking down the 131.8 billion yen rise in Gross Banking Profit, Gross International Profit increased by 147.9 billion yen, while Gross Domestic Profit decreased by 16.1 billion yen.

The main factor of decline in Line 3, Gross Domestic Profit, was the 16.8 billion yen decrease in net interest income, which can be attributed to a decrease in loan volume due to weak corporate loan demand.

Meanwhile, the biggest factor contributing to the large rise in Line 10, Gross International Profit, was a 105.6 billion yen rise in Net Interest Income. This is primarily because of high foreign currency treasury profits, which were supported by the decline in U.S. dollar interest rates, and dividends from an overseas subsidiary. There was also a 37.1 billion yen increase in Net Trading Profit.

Let's look at Line 17, Expenses. Expenses fell year-over-year by 13.5 billion yen. Personnel Expenses decreased by 7.2 billion yen, largely due to a reduction in employees. Integration of branches and streamlining of channel networks such as ATMs produced efficiency gains which more than offset the merger-related costs like system integration expenses, enabling a 5.3 billion yen decrease in Non-personnel Expenses. The remainder of the decrease in Expenses was due to a 1.0 billion yen fall in Taxes.

Let's move on to Other Operating Profit and Loss. Line 27, Total Credit Cost, was 305.4 billion yen. The credit cost consisted of 138.7 billion yen in Write-off of Loans, 98.4 billion yen in Transfer to Specific Reserve, 23.6 billion yen in Transfer to Reserve for Losses on Loans Sold, 2.1 billion yen in Losses on Loans Sold to CCPC, 13.5 billion yen in Losses on Sale of Delinquent Loans, and 37.4 billion yen Transfer from the General Reserve for Possible Loan Losses, and the Transfer from the Loan Loss Reserve for Specific Overseas Countries, which is subtracted from Total Credit Cost and amounted to 8.3 billion yen.

Meanwhile, looking at Line 35, Gains and Losses on Stock, there were net losses of 52.6 billion yen. This reflects Gains on Sales of Stock of 28.2 billion yen, Losses on Sales of Stocks of 11.9 billion yen, for a net gain of 16.3 billion yen, in addition to 68.9 billion yen in Losses on Devaluation of Stocks which were based on self-assessment of the stock portfolio.

Additionally, one other operating loss was the Enterprise Tax in Line 39, which was 14.0 billion yen.

All of the above items added up to an Operating Profit of 127.1 billion yen.

Moving on to Extraordinary Profit and Loss, a net loss of 4.6 billion yen was reported on Line 43, Gains and Losses on Disposition of Premises and Equipment. This was largely due to restructuring measures; in particular, losses on sales of closed branches or employee housing, and losses related to the restoration or disposition of them.

Meanwhile, a 10.1 billion yen extraordinary loss was reported for the Amortization of Net Obligation Under New Accounting Standards for Employees' Retirement Benefits.

As shown on Line 47, Income before Income Taxes was 111.1 billion yen. This is a 105.8 billion yen decrease compared with the previous year.

As indicated on Line 48, Current Income Taxes were 9.8 billion yen. Line 49, Deferred Income Taxes resulting from tax benefit accounting, was 21.5 billion yen.

Looking at the bottom line, we see Net Income of 79.8 billion yen, a 20.5 billion yen decrease compared with the previous year.

Let's look at the consolidated financial results on page 2. As shown at the bottom of the page, we had 155 consolidated subsidiaries and 40 affiliated companies accounted for by the equity method.

As shown on Line 15, consolidated Operating Profit decreased 253.9 billion yen from the previous year, to 114.4 billion yen mainly due to the decrease of non-consolidated Operating Profit owing to the deterioration of net gains on stocks. Net Income also decreased 73.0 billion yen to 34.2 billion yen as shown on Line 21.

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 2001.

The new rules require that net evaluation gains and losses of “Other Securities,” calculated by the mark-to-market method, be directly charged to capital. Evaluation methods applied to each category of trading purpose are shown at the top of the page.

The two charts at the middle and bottom of the page show non-consolidated and consolidated Evaluation Gains and Losses. On a non-consolidated basis, Evaluation Gains and Losses of “Other securities” (net loss of 689.5 billion yen) “Other Money Held in Trust” (net loss of 4.0 billion yen) amounted to a net loss of 693.5 billion yen, an 890.3 billion yen decrease compared to the figures after adjustments for merger accounting, in April 2001. This was mainly due to the decrease of net unrealized gains on yen-denominated stocks owing to the sluggish stock markets.

Moving on to the consolidated evaluation gains and losses at the bottom of the page, we can see there are net losses of 644.7 billion yen. This is 44.7 billion yen higher than the non-consolidated net gains, primarily because our consolidated subsidiary SMBC Capital Markets had approximately 60 billion yen in evaluation gains on its holdings of Goldman Sachs shares.

Let me move on to the derivatives transactions applying to hedging accounts, described on page 5. According to the new accounting standards for financial instruments introduced last year, derivatives transactions for hedging purposes have been made on-balance, being marked to market with the portion of gains and losses not corresponding to the profit for the hedged portion being reported as assets or liabilities and deferred. These new accounting standards do not require us to disclose the derivatives transactions applying to hedging accounts. But in order to strengthen the disclosure, we have explained those figures in this report.

Next, I would like to discuss the figures for Employee Retirement Benefit on page 6, which include breakdowns on both a non-consolidated and consolidated basis of the balance of retirement benefit liability and cost for employee retirement benefit. As former Sakura’s net obligation was fully reserved upon the merger, only former Sumitomo’s portion remains.

Now, I would like to point out the Consolidated Capital Ratio on page 7. As you can see, the preliminary estimate of the Consolidated Capital Ratio as of September 30 of this year is 10.79%. As for the figures of the previous year, we separately listed those of former Sakura and Sumitomo.

Let’s move on to page 8, which sums up asset quality of the Bank. Please look at the table, which 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 in 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, 60.0% reserves were provided for the 914.9 billion yen unsecured portion of Doubtful Assets, and 15.0% reserves were provided for the unsecured portion of Substandard Loans. For Normal Assets, the reserve ratio for Borrowers Requiring Caution was 3.1%, and the reserve ratio for Normal Borrowers was 0.2%.

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.

Now let's look at Progress in Decreasing Problem Assets on page 12, which we disclosed from the second half of fiscal 2000. Of the total amount of Problem Assets based on the Financial Reconstruction Law (excluding substandard loans) that had existed as of the end of the first half of fiscal 2000, 1,825.8 billion yen remained as of March 31, 2001. During the first half of fiscal 2001, we removed 399.7 billion yen of these assets from the balance sheet, and 1,426.1 billion yen remained as problem assets on September 30, 2001.

Meanwhile, 707.3 billion yen of assets were newly categorized as Bankrupt and Quasi-Bankrupt Assets or Doubtful Assets during the second half of fiscal 2000. We removed 297.0 billion yen of these assets from the balance sheet during the first half of fiscal 2001, and 410.3 billion yen remained as problem assets on September 30, 2001.

These results, (B) and (D), reflect progress in decreasing problem assets.

Meanwhile, 383.3 billion yen of assets were newly categorized as Bankrupt and Quasi-Bankrupt Assets or Doubtful Assets during the first half of fiscal 2001. As a result, total problem assets (excluding substandard assets) decreased by 313.4 billion yen during the first half of fiscal 2001, and problem assets as of September 30, 2001 became 2,219.7 billion yen.

We will continue our effort to decrease problem assets, based on the principles of removing problem assets from the balance sheet stated in the government's Emergency Economic Package.

Next, for your reference, the progress of restructuring for the first half of fiscal 2001 is shown on page 17.

I would now like to review our projections for earnings in fiscal 2001, which you can see on page 19.

As announced in the press release dated November 21, on a non-consolidated basis, we project 1,050.0 billion yen in Banking Profit (excluding transfer to general reserve for possible loan losses), a 45.0 billion yen loss in Operating Profit, and a 55.0 billion yen loss in Net Income.

On a consolidated basis, we project a 70.0 billion yen loss in Operating Profit and 150.0 billion yen loss in Net Income.

Meanwhile, we project that Total Credit Cost, on a non-consolidated basis, will be 1 trillion yen, as announced in the above-mentioned press release.