Announcement of Financial Results for the Fiscal 2002

I would now like to explain our financial results for the first half of fiscal 2002. We have given you copies of *Consolidated Financial Results for the First Half of Fiscal 2002 ended September 30, 2002*, *Nonconsolidated Financial Results for the First Half of Fiscal 2002 ended September 30, 2002*, *Financial Results: First Half of Fiscal 2002 Supplementary Information*, and *Projections for Fiscal 2002 Earnings of Sumitomo Mitsui Financial Group, Inc.*

Let us look at the report entitled *Financial Results: First Half of Fiscal 2002 Supplementary Information*, which summarizes the financial results.

Please look at the "Financial Results" on page 1. This is an overview of our non-consolidated financial results. Line 21, Banking Profit (excluding transfer to general reserve for possible loan losses), was 576.7 billion yen, a year-over-year rise of 60.9 billion yen. 48.6 billion yen of this increase in profit came from higher Gross Banking Profit, while the remaining 12.3 billion yen came from reductions in Expenses. Of the 48.6 billion yen rise in Gross Banking Profit, 4.3 billion yen came from an increase in Gross Domestic Profit and 44.3 billion yen came from Gross International Profit.

There was a 4.3 billion yen increase in Gross Domestic Profit shown in line 3, mainly due to 12.8 billion yen increase in Gains on Bonds, as a result of very short-term operations considering change in bonds markets and 10.5 increase in Net Fees and Commissions as a result of investment banking business including loan syndications and underwriting of private placement, while Net Interest Income decreased by 19.7 billion yen as a result of decrease in dividends from subsidiaries.

Meanwhile, the biggest factor contributing to large rise of 44.3 billion yen in Gross International Profit shown in Line 10 was a 33.5 billion yen increase in Gains on Bonds and a 32.9 billion yen increase in Net Trading Income, while Net Interest Income decreased by 18.8 billion yen because of decrease in dividends from overseas subsidiaries. Increase in Gains on Bonds was primarily due to decline in US dollar interest rate.

Let us look at Line 17, Expenses. Expenses fell year-over-year by 12.3 billion yen. In detail, Personnel Expenses decreased by 10.9 billion yen, largely due to a reduction in employees. Integration of branches both within Japan and overseas and a progress in restructuring of the distribution channel network including ATM enabled a 2.3 billion yen decrease in Non-personnel Expenses.

Let us move on to Non-Recurring Gains and Losses. In Line 27, Total Credit Cost was 266.3 billion yen including Transfer to General Reserve for Possible Loan Losses.

Now looking at Line 35, Gains (Losses) on Stocks, there were net losses of 191.8 billion yen (139.2 billion yen decrease year over year) with sale of stocks and devaluation.

Losses on Stocks consist of 16.4 billion yen Net Losses on Sale of Stocks, and 175.4 billion yen Losses on Devaluation of Stocks.

Additionally, the Enterprise Taxes by Local Governments in Line 39 was 3.5 billion yen. This is 10.5 billion yen decrease compared with the previous year, which is due to a return of reserve for Effect of Introduction of Enterprises Taxes on the Banking Industry by the Osaka Prefectural Government, which did not take effect in fiscal 2001.

All of the above items added up to an Operating Profit of 99.7 billion yen (27.4 billion yen decrease year over year), as shown in Line 41.

Moving on to Extraordinary Gains (Losses), Extraordinary Losses were 38.7 billion yen, as a result of restructuring branch network and system integration caused by merger.

As shown on Line 47, Income before Income Taxes was 61.0 billion yen.

As indicated on Line 48, Current Income Taxes were 6.8 billion yen. And on Line 49, Deferred Income Taxes resulting from the adjustment of deferred tax accounting, was 9.3 billion yen.

In Line 50, we see Net Income of 44.9 billion yen, a 34.9 billion yen decrease compared with the previous year.

Let us now look at the Consolidated Financial Results on page 2. As shown at the bottom of the page, we had 147 consolidated subsidiaries and 38 affiliated companies accounted for by equity method.

As shown on Line 15, Consolidated Operating Profit increased by 35.4 billion yen from the previous year, to 149.9 billion yen, mainly due to a large decrease in dividend income from overseas affiliates excluded from consolidated subsidiaries, while non-consolidated profit decreased. Consolidated Net Income increased by 20.9 billion yen to 55.1 billion yen as shown on Line 21.

I would now like to explain about some other supplementary figures.

First of all, I would like to make some comments on page 3 No. 3, the situation of Domestic Interest Spread. Interest Spread, the difference between the average Interest Earned on Loans and Bills Discounted and the average Interest Paid on Deposits, etc. in six-month period ended Mar. 31, 2002, declined by 0.1% compared with six-month period ended Sep. 30, 2001 and by 0.03% compared with six-month period ended Mar. 31, 2002. As the result of the “Improvement of Loan Spread”, a core action in the “Business Reform” which we started from this fiscal year, we have improved loan spread by 0.12% for loans to the middle market clients, which amounted to 24 trillion yen, comparing between Mar. end 2002 and Sep. end 2002 (Comparision between market interest rate correspond to terms of loans). We can see a clear effect of our actions to improve loan spread by 0.21% for loans excluding the loans which are not the object of the action, for example, loans guaranteed by credit guarantee corporations, loans with long-term fixed rate, and loans with interest rate already fulfilled standard interest rate. We will continue to negotiate with clients for the further improvement.

Let us look at page 4 for an explanation of Unrealized Gains (Losses) on Securities.

The two charts at the middle and bottom of the page showing non-consolidated and consolidated Unrealized Gains (Losses).

On a non-consolidated basis, the sum of Unrealized Gains (Losses) of “Other securities”, net losses of 818.6 billion yen, and “Other Money Held in Trust”, net losses of 0.4 billion yen, showed net losses of 819 billion yen, a 333.5 billion yen decrease compared with the figure at the end of March 2002. This is mainly due to the increase in unrealized losses on domestic stocks caused by stagnation of stock market.

Moving on now to the consolidated Unrealized Gains (Losses) at the bottom of the page, we can see there are net losses of 830.9 billion yen.

Next, I would like to discuss the figures for Consolidated Capital Ratio on page 7. As you can see, the preliminary figure of the Consolidated Capital Ratio as of September 30 of this year is 10.37%. In order to assure the dividend payment at the end of the fiscal year by the holding company, Sumitomo Mitsui Financial Group, Inc., which will be established in December 2002, Sumitomo Mitsui Banking Corporation is going to pay the interim dividends to the holding company, the amount of which will be 124.0 billion yen at the maximum, the Profit Carried Forward to Next Year after appropriation of profit at the end of fiscal 2001. The amount of interim dividends will be determined after the resolution of the Board that will be held after January 2003. According to a rule, the amount of planned dividends should be deducted from the amount of Tier I Capital to calculate BIS Capital Ratio at the end of interim period. As the planned interim dividends of fiscal 2002 will be paid from Sumitomo Mitsui Banking Corporation to the holding company within the group, realistic Consolidated BIS Capital Ratio of Sumitomo Mitsui Financial Group at Sep. 30, 2002 is 10.58%, which is calculated without deducting the amount of planned interim dividend, as you can see at the footnote.

Let us now move on to page 8, which sums up the asset quality of the Bank. Please look at the “Classification under Self-Assessment, Disclosure of Problem Assets and Write-Offs/Reserves”. 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 would now like to give a brief summary. 100% reserves were provided for the unsecured portion of Bankrupt and Quasi-Bankrupt Assets, 72.6% reserves were provided for the 1,300.2 billion yen unsecured portion of Doubtful Assets, 21.8% reserves were provided for the unsecured portion of Substandard Loans, and as for Normal Assets, the reserve ratio for total claims of Borrowers Requiring Caution

excluding Substandard Borrowers was 5.3%, and the reserve ratio for total claims of Normal Borrowers was 0.2%.
And 13.9% reserves were provided for the claims excluding portions secured by collateral or guarantees, etc., of Borrowers Requiring Caution including Substandard Borrowers.
For further information, please see the handout.

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

Please look at page 11. As you can see in the table on the top of the page, problem assets based on the Financial Reconstruction Law amounted to 5,703.1 billion yen (196.9 billion yen decrease compared with March 31, 2002) as of September 30, 2002.
Details were as follows:

- -Bankrupt and Quasi-Bankrupt Assets: 514.8 billion yen.
- -Doubtful Assets: 2,541.4 billion yen.
- -Substandard Loans: 2,646.9 billion yen.

The amount of Doubtful Assets decreased owing to a progress in business restructurings of borrowers with large exposures and intensive off-balancing. Substandard Loans increased as some portion of problem assets were still categorized as Substandard Loans even after lenders' business restructuring in addition to strict assessment of Restructured Loans. Accordingly, problem assets based on the Financial Reconstruction Law decreased by 200.0 billion yen compared with Mar. 31, 2002. We believe that the amount of problem assets will decrease steadily as we continue off-balancing of problem assets following the government policies.

The summery of Progress of Off-balancing of Problem Assets is shown on page 12 and 13.

We show the Bankrupt and Quasi-Bankrupt Assets and Doubtful Assets existing prior to and classified during the first half of fiscal 2000, those classified during the second half of fiscal 2000, those classified during the first half of fiscal 2001, and those classified during the second half of the fiscal 2001 respectively. And the results of the progress in off-balancing problem assets for each term during the first half of the fiscal 2002 are shown on (B), (D), (F) and (H). Thus, the total amount off-balanced was 953.2 billion yen ((B)+(D)+(F)+(H), the sum of which is not mentioned in the handout.)

To continue, 545.7 billion yen of assets were newly classified as Bankrupt and Quasi-Bankrupt Assets or Doubtful Assets during the first half of fiscal 2002(I) as shown in page13 No.5. Bankrupt and Quasi-Bankrupt Assets and Doubtful Assets at September 30, 2002 amounted to 3,056.2 billion yen, a 407.5 billion yen decrease compared with March 31, 2002. For your reference, we disclose the amount of "the result of measures connected to off-balancing", which the Financial Service Agency released last week, as shown at the footnotes of each term-end balance. After deduction of 425.7 billion yen, the amount of "the result of measures connected to off-balancing" from term-end balance of Bankrupt and Quasi-Bankrupt Assets, and Doubtful Assets at

Sep. 30, 2002, the balance of Bankrupt and Quasi-Bankrupt Assets, and Doubtful Assets, which requires to be written-off will be 2,630.5 billion yen.

Nextly, progress on restructuring is shown in page 19 and 20. These are already disclosed, and we would like to explain about the progress and plans. First of all, please look at page 19. As we are working on further cuts in Expenses, our target amount of Expences in fiscal 2004 is 600.0 billion yen, which is 80.0 billion yen decrease from the original target in the Plan for Strengthening the Financial Base of the Bank. Comparing with fiscal 1997, when Expenses were the largest, it is 208.6 billion yen decrease, which is 26% reduction. Furthermore, Expense Ratio is 36%, which is 31% decrease compared with fiscal 1990, when Expense Ratio was the highest. To continue, please look at page 20. The number of domestic branches will be 401 branches on Mar. 31, 2003. Compared with Mar. 31, 1991, when the number of domestic branches was the largest, this is reduction by 452 branches, which is 53% reduction. The number of employees will be 20,600 on Mar. 31, 2005, which is reduction by 19,395 employees, in other word, 48% reduction, comparing with Mar. 31, 1994, when the number of employees was the largest. As you can see, we plan to reduce the number of branches and employees by almost half comparing with the time when each number were the largest.

Lastly, I will touch upon our projections for earnings in the fiscal year 2002, which you can see on page 21.

We will establish a holding company, Sumitomo Mitsui Financial Group, Inc. by stock transfer on December 2, 2002. As for projection for the earnings of the holding company, please see *Projections for Fiscal 2002 Earnings of Sumitomo Mitsui Financial Group, Inc.*

On a non-consolidated basis, we project 130.0 billion yen in Operating Income, 125.0 billion yen in Operating Profit, and 125.0 billion yen in Net Income.

On a consolidated basis, we project 3,400.0 billion yen in Operating Income, 200 billion yen in Operating Profit and 30.0 billion yen in Net Income.

Operating Income on a non-consolidated basis includes dividends from subsidiaries including Sumitomo Mitsui Banking Corporation. Dividends of Sumitomo Mitsui Financial Group, Inc. at the end of the fiscal year will be 4,000 yen per common stock, 10,500 yen per preferred stock (Series I), 28,500 yen per preferred stock (Series II), and 13,700 yen per preferred stock (Series III) as you can see in *Projections for Fiscal 2002 Earnings of Sumitomo Mitsui Financial Group, Inc.* Comparing with the dividend before the stock transfer, dividends of Sumitomo Mitsui Financial Group, Inc. are to be kept at the same level as Sumitomo Mitsui Banking Corporation, which are, 4 yen per common stock, 10.5 yen per preferred stock (Series I), 28.5 yen per preferred stock (Series II), 13.7 yen per preferred stock (Series III).

Projection for the earnings of Sumitomo Mitsui Banking Corporation is shown below the projection of Sumitomo Mitsui Financial Group, Inc.

We project 1,080.0 billion yen in Banking Profit (excluding transfer to general reserve for possible loan losses), 125.0 billion yen in Operating Profit, and 30.0 billion yen in Net Income.

Also, we project that the Total Credit Cost of fiscal year 2002 will be 700.0 billion yen. This is 200.0 billion yen increase from the original projection, 500.0 billion yen. The increase mainly due to a progress in off-balancing and the increase of reserves for substandard loans in accordance with the DCF method.