

Nonconsolidated Financial Review

Sumitomo Mitsui Banking Corporation (Formerly The Sakura Bank, Limited)

1. Operating Results

As a result of an ¥18.5 billion increase in gross banking profit and a ¥23.5 billion decrease in expenses (excluding non-recurring losses) and bond issue costs, banking profit (excluding transfer to general reserve for possible loan losses) increased ¥41.9 billion from fiscal 1999, to ¥355.4 billion in fiscal 2000, ended March 31, 2001.

Operating profit, which is computed by adjusting banking profit by non-recurring gains (losses) such as total credit cost and gains (losses) on stocks, was ¥190.7 billion. Total credit cost, including transfer to general reserve for possible loan losses, was ¥261.1 billion. This was brought about by factors involving the continued worsening of corporate financial results amid the prolonged economic recession, the continued deterioration of assets as collateral and acceleration in the disposal of problem assets in advance of the merger. Gains (losses) on

stocks decreased ¥290.3 billion from the previous year to ¥51.5 billion.

Net income, after adjustments for operating profit, extraordinary gains (losses) and income taxes, increased ¥25.1 billion from the previous fiscal year, to ¥82.2 billion. Net income was ¥108.5 billion lower than operating profit, mainly because ¥36.4 billion was appropriated for amortization of net transition obligation from initial application of the new accounting standard for employee retirement benefits, and because ¥55.1 billion was recognized as 'income taxes, deferred' under tax-effect accounting. In particular, a ¥5.6 billion reduction in deferred tax assets was associated with the lowering of the effective statutory tax rate, affected by the establishment of the Osaka Prefectural Government's ordinance concerning the special treatment for the standard of enterprise taxes to the banking industry.

2. Income Analysis

Gross Banking Profit

Gross banking profit increased ¥18.5 billion from the previous fiscal year, to ¥730.4 billion. This was largely because domestic net fees and commissions rose ¥6.7 billion, due to an increase in income from investment trust sales commissions, and because international net trading income increased ¥10.1 billion, primarily attributable to improved profit on dealing.

Expenses

Expenses (excluding non-recurring losses) decreased ¥22.8 billion from the previous fiscal year, to ¥375.0 billion. This was mainly due to a wide-ranging and drastic cost review that

resulted in a ¥15.1 billion reduction in non-personnel expenses, fully absorbing merger-related costs. It was also due to the ¥6.1 billion decrease in personnel expenses resulting from the reduction in the number of employees.

Banking Profit

As a result of the above, fiscal 2000 banking profit (excluding transfer to general reserve for possible loan losses) increased ¥41.9 billion from the previous fiscal year, to ¥355.4 billion. With a ¥56.0 billion reversal of the general reserve for possible loan losses, banking profit (including transfer to general reserve for possible loan losses) increased ¥83.3 billion, to ¥411.4 billion.

Banking Profit

	Billions of yen		
Years ended March 31	2001	2000	Increase/ decrease
Gross banking profit	¥730.4	¥711.9	¥ 18.5
Gross banking profit (excluding net gains (losses) on bonds)	722.4	709.4	13.0
Net interest income	598.7	609.3	(10.6)
Net fees and commissions	69.3	60.1	9.2
Net trading income	20.8	8.1	12.7
Net other operating income	41.6	34.4	7.2
Gross domestic banking profit	676.3	665.6	10.7
Gross international banking profit	54.1	46.3	7.8
Transfer to general reserve for possible loan losses	¥ (56.0)	¥ (14.6)	¥(41.4)
Bond issue costs	—	0.7	(0.7)
Expenses (excluding non-recurring losses)	375.0	397.8	(22.8)
Personnel expenses	155.6	161.7	(6.1)
Non-personnel expenses	201.0	216.1	(15.1)
Taxes	18.3	19.9	(1.6)
Banking profit	¥411.4	¥328.1	¥ 83.3
Banking profit (excluding transfer to general reserve for possible loan losses)	355.4	313.5	41.9
Banking profit (excluding transfer to general reserve for possible loan losses and net gains (losses) on bonds)	347.5	311.0	36.5

Nonconsolidated Financial Review

Sumitomo Mitsui Banking Corporation (Formerly The Sumitomo Bank, Limited)

1. Operating Results

As a result of a ¥50.2 billion increase in gross banking profit and an ¥8.0 billion decrease in expenses (excluding non-recurring losses) and bond issue costs, banking profit (excluding transfer to general reserve for possible loan losses) increased ¥58.3 billion from fiscal 1999, to ¥447.7 billion in fiscal 2000, ended March 31, 2001.

Operating profit, which is computed by adjusting banking profit by non-recurring gains (losses) such as total credit cost and gains (losses) on stocks, was ¥168.4 billion. Total credit cost, including transfer to general reserve for possible loan losses, amounted to ¥558.0 billion. It is partly because loan forgiveness in favor of borrowers increased, and partly because provision for workout of problem assets in the next couple of fiscal years was reserved, and also because asset qualities and collateral values deteriorated more seriously than expected.

2. Income Analysis

Gross Banking Profit

Gross banking profit increased ¥50.2 billion from the previous fiscal year, to ¥772.8 billion. This was largely because domestic net fees and commissions rose ¥6.2 billion, due to increased earnings generated from electronic banking and exchange transactions. It also reflected a ¥7.1 billion increase in net gains on bonds in other operating income. Moreover, international net interest income increased ¥33.5 billion, which was mainly attributable to dividends received from overseas subsidiaries and affiliates.

Expenses

Expenses (excluding non-recurring losses) decreased ¥4.7 billion from the previous fiscal year, to ¥325.1 billion. This was mainly due to a ¥3.6 billion decrease in personnel expenses as

Gains (losses) on stocks decreased ¥226.8 billion from the previous fiscal year to ¥259.9 billion.

Net income, after adjustments for operating profit, extraordinary gains (losses) and income taxes, increased ¥6.9 billion from the previous fiscal year, to ¥55.7 billion. Net income was ¥112.7 billion lower than operating profit, partly because ¥20.2 billion was appropriated for amortization of net transition obligation from initial application of the new accounting standard for employee retirement benefits, but mainly because ¥70.6 billion in expenses was recognized as 'income taxes, deferred' under tax-effect accounting. In particular, a ¥26.4 billion reduction in deferred tax assets was associated with the lowering of the effective statutory tax rate, affected by the establishment of the Osaka Prefectural Government's ordinance concerning the special treatment for the standard of enterprise taxes to the banking industry.

the number of personnel was reduced. It was also due to a ¥0.6 billion reduction in non-personnel expenses, with merger-related costs fully absorbed through the integration and effective operation of domestic and overseas branches, and administration bases.

Banking Profit

As a result of the above, fiscal 2000 banking profit (excluding transfer to general reserve for possible loan losses) increased ¥58.3 billion from fiscal 1999, to ¥447.7 billion. With the ¥132.6 billion reversal of the general reserve for possible loan losses, banking profit, including transfer to general reserve for possible loan losses, increased ¥229.7 billion, to ¥580.3 billion.

Banking Profit

Years ended March 31	Billions of yen		
	2001	2000	Increase/ decrease
Gross banking profit	¥ 772.8	¥722.6	¥ 50.2
Gross banking profit (excluding net gains (losses) on bonds)	772.0	726.5	45.5
Net interest income	642.0	604.7	37.3
Net fees and commissions	81.4	69.3	12.1
Net trading income	74.6	33.3	41.3
Net other operating income	(25.3)	15.3	(40.6)
Gross domestic banking profit	583.0	565.2	17.8
Gross international banking profit	189.9	157.4	32.5
Transfer to general reserve for possible loan losses	¥(132.6)	¥ 38.9	¥(171.5)
Bond issue costs	—	3.3	(3.3)
Expenses (excluding non-recurring losses)	325.1	329.8	(4.7)
Personnel expenses	138.4	142.0	(3.6)
Non-personnel expenses	169.6	170.2	(0.6)
Taxes	17.2	17.6	(0.4)
Banking profit	¥ 580.3	¥350.6	¥ 229.7
Banking profit (excluding transfer to general reserve for possible loan losses)	447.7	389.4	58.3
Banking profit (excluding transfer to general reserve for possible loan losses and net gains (losses) on bonds)	446.8	393.4	53.4

Non-recurring Gains (Losses) (Including Disposal of Problem Assets)

Non-recurring losses amounted to ¥220.6 billion. This was mainly due to ¥317.1 billion disposal of problem assets (total credit cost, including transfer to general reserve for possible loan losses, was ¥261.1 billion), accompanying ¥51.5 billion gains on sale of stocks. (For the disposal and the disclosed amount of problem assets, see Asset Quality on page 10.)

Extraordinary Gains (Losses)

Extraordinary losses reached ¥51.7 billion. This primarily reflected a loss of ¥16.1 billion on disposition of premises and equipment, because of factors such as losses on the sale of idle real estate as part of restructuring, and the cost of disposing of branches as a result of integration. Another important factor was the appropriation of ¥36.4 billion for amortization of net

transition obligation from initial application of the new accounting standard for employee retirement benefits from the fiscal year.

Operating Profit and Net Income

As a result of the above, operating profit increased ¥30.8 billion from the previous fiscal year, to ¥190.7 billion. Net income, the amount after adjusting operating profit for extraordinary gains (losses) and income taxes, increased ¥25.1 billion from the previous fiscal year, to ¥82.2 billion.

Due to the establishment of the Osaka Prefectural Government's ordinance concerning the special treatment for the standard of enterprise taxes to the banking industry in June 2000, the impact of a ¥5.6 billion decrease in deferred tax assets caused an increase in deferred income taxes and a decrease in net income by the same amount.

Operating Profit and Net Income

Years ended March 31	Billions of yen		Increase/ decrease
	2001	2000	
Banking profit (excluding transfer to general reserve for possible loan losses)	¥355.4	¥313.5	¥ 41.9
Transfer to general reserve for possible loan losses	(56.0)	(14.6)	(41.4)
Banking profit (including transfer to general reserve for possible loan losses)	¥411.4	¥328.1	¥ 83.3
Non-recurring gains (losses)	(220.6)	(168.2)	(52.4)
Total credit cost	261.1	449.9	(188.8)
Write-off of loans	240.5	130.5	110.0
Transfer to specific reserve	9.8	194.7	(184.9)
Transfer to reserve for losses on loans sold	33.9	55.5	(21.6)
Losses on loans sold to CCPC	20.4	37.1	(16.7)
Losses on sale of delinquent loans	8.5	14.2	(5.7)
Losses on financial support for associated companies	—	35.2	(35.2)
Transfer to loan loss reserve for specific overseas countries	4.0	(2.6)	6.6
Gains (losses) on stocks	51.5	341.8	(290.3)
Gains on sale of stocks	160.7	406.3	(245.6)
Losses on sale of stocks	28.9	29.9	(1.0)
Losses on devaluation of stocks	80.3	34.6	45.7
Operating profit	¥190.7	¥159.9	¥ 30.8
Extraordinary gains (losses)	(51.7)	(5.9)	(45.8)
Gains (losses) on disposition of premises and equipment	(16.1)	(6.1)	(10.0)
Amortization of net transition obligation from initial application of the new accounting standard for employee retirement benefits	36.4	—	36.4
Income taxes, current	1.8	4.0	(2.2)
Income taxes, deferred	55.1	93.0	(37.9)
Effect of introduction of enterprise taxes to banking industries by Tokyo Metropolitan Government	—	35.8	(35.8)
Effect of introduction of enterprise taxes to banking industries by Osaka Prefectural Government	5.6	—	5.6
Net income	82.2	57.1	25.1

Note: Total credit cost includes transfer to general reserve for possible loan losses.

Non-recurring Gains (Losses) (Including Disposal of Problem Assets)

Non-recurring losses amounted to ¥411.9 billion. This was mainly due to ¥690.6 billion disposal of problem assets (total credit cost, including transfer to general reserve for possible loan losses was, ¥558.0 billion), accompanying ¥259.9 billion gains on sale of stocks. (For the disposal and the disclosed amount of problem assets, see Asset Quality on page 10.)

Extraordinary Gains (Losses)

Extraordinary losses amounted to ¥34.4 billion. This primarily reflected a loss of ¥14.5 billion on disposition of premises and equipment, such as the sale of company housing and other properties and the disposal of branches as part of restructuring. Another important factor was the appropriation of ¥20.2 billion for amortization of net transition obligation from initial

application of the new accounting standard for employee retirement benefits from the fiscal year.

Operating Profit and Net Income

As a result of the above, operating profit decreased ¥8.1 billion from the previous fiscal year, to ¥168.4 billion. Net income, the amount after adjusting operating profit for extraordinary gains (losses) and income taxes, increased ¥6.9 billion, to ¥55.7 billion.

Due to the establishment of the Osaka Prefectural Government's ordinance concerning the special treatment for the standard of enterprise taxes to the banking industry in June 2000, the impact of a ¥26.4 billion decrease in deferred tax assets caused an increase in deferred income taxes and a decrease in net income by the same amount.

Operating Profit and Net Income

Years ended March 31	Billions of yen		
	2001	2000	Increase/ decrease
Banking profit (excluding transfer to general reserve for possible loan losses)	¥447.7	¥389.4	¥ 58.3
Transfer to general reserve for possible loan losses	(132.6)	38.9	(171.5)
Banking profit (including transfer to general reserve for possible loan losses)	¥580.3	¥350.6	¥ 229.7
Non-recurring gains (losses)	(411.9)	(174.1)	(237.8)
Total credit cost	558.0	680.7	(122.7)
Write-off of loans	500.9	347.4	153.5
Transfer to specific reserve	146.7	253.1	(106.4)
Transfer to reserve for losses on loans sold	19.1	17.3	1.8
Losses on loans sold to CCPC	11.4	7.7	3.7
Losses on sale of delinquent loans	16.6	19.6	(3.0)
Transfer to loan loss reserve for specific overseas countries	(4.0)	(3.1)	(0.9)
Gains (losses) on stocks	259.9	486.7	(226.8)
Gains on sale of stocks	335.5	551.2	(215.7)
Losses on sale of stocks	37.8	35.2	2.6
Losses on devaluation of stocks	37.8	29.4	8.4
Operating profit	¥168.4	¥176.5	¥ (8.1)
Extraordinary gains (losses)	(34.4)	(28.0)	(6.4)
Gains (losses) on disposition of premises and equipment	(14.5)	(6.9)	(7.6)
Amortization of net transition obligation from initial application of the new accounting standard for employee retirement benefits	20.2	—	20.2
Income taxes, current	7.8	6.6	1.2
Income taxes, deferred	70.6	93.0	(22.4)
Effect of introduction of enterprise taxes to banking industries by Tokyo Metropolitan Government	—	34.3	(34.3)
Effect of introduction of enterprise taxes to banking industries by Osaka Prefectural Government	26.4	—	26.4
Net income	55.7	48.8	6.9

Note: Total credit cost includes transfer to general reserve for possible loan losses.

3. Assets, Liabilities and Stockholders' Equity

Assets

Notwithstanding efforts to increase prime assets, including loans to individuals and small and medium-sized corporations, such factors as a slowdown in demand for funds by large and medium-sized enterprises and the negative effect of the disposal of problem assets led loans and bills discounted to decrease ¥1,364.5 billion from the end of the previous fiscal year, to ¥30,575.5 billion. Meanwhile, securities increased ¥3,288.1 billion, to ¥10,199.7 billion, mainly because of a purchase of bonds for additional contribution of collateral with the introduction of RTGS (real-time gross settlement).

Liabilities

Deposits decreased ¥931.5 billion from the end of the previous fiscal year, to ¥28,872.2 billion, while negotiable certificates of deposit increased ¥1,122.9 billion, to ¥4,661.8 billion under the circumstances where corporations turned sensitive to interest rates.

Stockholders' Equity

Stockholders' equity increased ¥28.9 billion from the end of the previous fiscal year, to ¥2,281.2 billion. The total number of shares issued at the end of the fiscal year consisted of 4,118 million shares of common stock and 802 million shares of preferred stock. Stockholders' equity (excluding preferred stock and accompanying capital surplus) per share increased ¥7.05, to ¥358.43.

Assets, Liabilities and Stockholders' Equity

March 31	Billions of yen		
	2001	2000	Increase/ decrease
Assets	¥48,461.8	¥46,559.5	¥ 1,902.3
Loans and bills discounted	30,575.5	31,940.0	(1,364.5)
Securities	10,199.7	6,911.6	3,288.1
Liabilities	46,180.6	44,307.2	1,873.4
Deposits	28,872.2	29,803.7	(931.5)
Negotiable certificates of deposit	4,661.8	3,538.9	1,122.9
Stockholders' equity	2,281.2	2,252.3	28.9

4. Unrealized Gains (Losses) on Securities (Before Adjustments for the Merger Accounting)

Unrealized gains (losses) on the valuation of securities at the end of fiscal 2000 came to a net loss of ¥342.4 billion, a drop of about one trillion yen from the end of the previous fiscal year, reflecting the large decline in stock prices. For the calculation of stocks in 'other securities,' the average market price in the one month before the end of the fiscal year is used, but if calculated using fiscal year-end prices, net unrealized losses on valuation would be ¥247.5 billion. However, since all of gross unrealized

losses on the valuation of 'other securities' held by the former Sakura Bank at the time of the merger were disposed of and only the net unrealized gains were transferred to the new bank, the new bank recorded a net gain on valuation of approximately ¥200 billion at April 1, 2001. (For details, see 1. Adjustments for Merger Accounting [SMBC's Unrealized Gains (Losses) (Nonconsolidated)] on page 68.)

Unrealized Gains (Losses) on Securities (Before Adjustments for the Merger Accounting)

March 31	Billions of yen						
	2001		2000				
	Net unrealized gains (losses) (a)	(a) – (b)	Unrealized gains	Unrealized losses	Net unrealized gains (losses) (b)	Unrealized gains	Unrealized losses
Held-to-maturity securities	¥ —	/	¥ —	¥ —	/	/	/
Stocks of subsidiaries and affiliates	4.2	/	5.8	(1.5)	/	/	/
Other securities	(346.6)	/	157.8	(504.4)	/	/	/
Stocks	(355.7)	/	130.3	(486.0)	/	/	/
Bonds	21.4	/	24.0	(2.6)	/	/	/
Others	(12.3)	/	3.5	(15.8)	/	/	/
Total	(342.4)	¥(1,005.2)	163.6	(506.0)	¥662.8	¥1,103.9	¥(441.1)
Stocks	(351.5)	(1,034.4)	136.0	(487.5)	682.9	1,075.6	(392.7)
Bonds	21.4	49.3	24.0	(2.6)	(27.9)	7.3	(35.1)
Others	(12.3)	(20.0)	3.5	(15.8)	7.7	21.0	(13.3)

5. Dividend Policy

With respect to the interest of shareholders, the Bank subscribes to a fundamental policy of issuing appropriate dividends, with the specific view of enriching capital and preserving sound management. As for year-end dividends, the Bank issued dividends per common share at ¥6.00 (including ¥3.00 of delivered money due

to the merger) and dividends per preferred share for series II at ¥15.00 (including ¥7.50 of delivered money due to the merger), and at ¥13.70 (including ¥6.85 of delivered money due to the merger) for series III (Type 2), the same as the previous term.

3. Assets, Liabilities and Stockholders' Equity

Assets

Loans and bills discounted decreased ¥186.2 billion from the end of the previous fiscal year, to ¥31,172.3 billion, under the circumstances where large corporations in domestic and overseas markets continuously reduce interest-bearing liabilities. Meanwhile, securities increased ¥7,878.1 billion, to ¥16,860.3 billion, mainly because of a purchase of bonds for additional contribution of collateral with the introduction of RTGS (real-time gross settlement) and an effect of a change in accounting of repurchase agreement transactions associated with the application of a new accounting standard for financial instruments.

Liabilities

Deposits increased ¥2,780.8 billion, from the end of the previous fiscal year, to ¥30,169.0 billion. This result reflected the string of monetary easing measures taken by the Bank of Japan since the beginning of the year, making funds of individuals and corporations flow in liquid deposits.

Stockholders' Equity

Stockholders' equity increased ¥38.1 billion from the end of the previous fiscal year, to ¥1,918.7 billion. The total number of shares issued at the end of fiscal 2000 comprised 3,141 million shares of common stock and 167 million shares of preferred stock. Stockholders' equity (excluding preferred stock and accompanying capital surplus) per share increased ¥12.12 to ¥451.35.

Assets, Liabilities and Stockholders' Equity

March 31	Billions of yen		
	2001	2000	Increase/ decrease
Assets	¥65,265.6	¥51,089.3	¥14,176.3
Loans and bills discounted	31,172.3	31,358.5	(186.2)
Securities	16,860.3	8,982.2	7,878.1
Liabilities	63,346.9	49,208.7	14,138.2
Deposits	30,169.0	27,388.2	2,780.8
Negotiable certificates of deposit	7,026.6	6,841.6	185.0
Stockholders' equity	1,918.7	1,880.6	38.1

4. Unrealized Gains (Losses) on Securities (Before Adjustments for the Merger Accounting)

Unrealized gains (losses) on the valuation of securities at the end of fiscal 2000 came to a slight net loss of ¥89.6 billion, because net unrealized gains (losses) on valuation of stocks significantly dropped by about one trillion yen from the end of the previous fiscal year, reflecting the large decline in stock prices, while being offset by net unrealized gains on valuation of bonds. For the calculation of stocks in 'other securities,' the average market price in the one month before the end of the fiscal year is used, but if calculated using fiscal year-end prices, net unrealized losses

on valuation of securities would be limited to ¥10.6 billion. However, since all of gross unrealized losses on 'other securities' (including 'other money held in trust') held by the former Sakura Bank at the time of the merger were disposed of and only the net unrealized gains were transferred to the new bank, the new bank shows a net gain on valuation of approximately ¥200 billion as of April 1, 2001. (For details, see 1. Adjustments for Merger Accounting [SMBC's Unrealized Gains (Losses) (Nonconsolidated)] on page 68.)

Unrealized Gains (Losses) on Securities (Before Adjustments for the Merger Accounting)

March 31	Billions of yen						
	2001			2000			
	Net unrealized gains (losses) (a)	(a) - (b)	Unrealized gains	Unrealized losses	Net unrealized gains (losses) (b)	Unrealized gains	Unrealized losses
Held-to-maturity securities	¥ (0.1)	/	¥ 0.0	¥ (0.1)	/	/	/
Stocks of subsidiaries and affiliates	(6.3)	/	0.5	(6.8)	/	/	/
Other securities	(83.2)	/	244.6	(327.8)	/	/	/
Stocks	(162.3)	/	154.7	(317.1)	/	/	/
Bonds	80.9	/	83.5	(2.6)	/	/	/
Others	(1.9)	/	6.4	(8.2)	/	/	/
Total	(89.6)	¥ (991.0)	245.1	(334.7)	¥901.4	¥1,259.3	¥(357.9)
Stocks	(168.6)	(1,073.1)	155.2	(323.9)	904.5	1,221.9	(317.5)
Bonds	80.9	81.5	83.5	(2.6)	(0.6)	33.7	(34.3)
Others	(1.9)	0.6	6.4	(8.3)	(2.5)	3.6	(6.2)

5. Dividend Policy

With respect to the interest of shareholders, the Bank subscribes to a fundamental policy of issuing appropriate dividends with the specific view of enriching capital and preserving sound management.

In view of enriching capital by appropriate retained earnings, at fiscal year-end, the Bank issued dividends per common share at ¥6.00, and dividends per preferred share for First series Type I at ¥10.50 and at ¥28.50 for Second series Type I, the same as the previous term.