

Financial Review (Nonconsolidated)

1. Operating Results

Banking profit (excluding transfer to general reserve for possible loan losses) increased ¥380.3 billion to ¥1,183.4 billion, the result of a ¥350.3 billion year-on-year increase in gross banking profit and a ¥30.0 billion decrease in expenses (excluding nonrecurring losses).

The operating loss, calculated by adjusting banking profit (excluding transfer to general reserve for possible loan losses) for nonrecurring items including total credit cost and losses on stocks, was ¥522.1 billion.

Total credit cost (including transfer to general reserve for possible loan losses) amounted to ¥1,543.1 billion, the result of accelerated off-balancing of problem assets during the period as well as a review of classifications of borrowers and associated increases in reserve ratios to prepare the Bank for possible future deterioration in asset quality. Losses on stocks totaled ¥130.7 billion.

After deducting extraordinary losses and income taxes from the operating loss, the net loss amounted to ¥322.8 billion.

2. Income Analysis

Gross Banking Profit

Gross banking profit increased ¥350.3 billion over the previous fiscal year's figure, to ¥1,853.5 billion. Gross banking profit from domestic operations decreased ¥2.8 billion from the figure for the previous fiscal year. Although net gains on bonds increased ¥47.0 billion compared with the previous fiscal year's figure, net interest income declined ¥29.8 billion

as the loan balance fell owing to a downturn in demand for loans among corporate borrowers. Meanwhile, gross banking profit from international operations rose ¥353.1 billion over the previous fiscal year's result, largely owing to a ¥265.6 billion increase in net interest income, including favorable gains on foreign currency denominated treasuries due to the decline in U.S. dollar based interest rates and growth in dividends from overseas subsidiaries. A ¥34.1 billion increase in trading profit is also a contribution to a favorable performance in international operations.

Expenses

Expenses (excluding nonrecurring losses) decreased ¥30.0 billion compared with the figure for the previous fiscal year, to ¥670.1 billion. This was mainly attributable to a ¥22.2 billion decline in personnel expenses largely due to a reduction in employees, which offset a ¥16.6 billion rise in systems integration expenses related to the merger. The integration of branches within Japan and overseas and revisions to the procurement system led to a ¥4.0 billion decrease in nonpersonnel expenses. The remainder of the decrease in expenses was due to a ¥3.8 billion decline in taxes.

Banking Profit

Banking profit (excluding transfer to general reserve for possible loan losses) increased ¥380.3 billion over the previous fiscal year's figure, to ¥1,183.4 billion. Banking profit decreased ¥312.9 billion, to ¥678.8 billion.

Banking Profit

Year ended March 31	Millions of yen		
	2002 (A)	2001 (B)	Increase (decrease) (A)–(B)
Gross banking profit.....	¥1,853,515	¥1,503,203	¥ 350,312
Gross banking profit (excluding gains (losses) on bonds)	1,786,954	1,494,407	292,547
Net interest income.....	1,476,512	1,240,731	235,781
Net fees and commissions	165,272	150,692	14,580
Net trading income	121,289	95,385	25,904
Net other operating income	90,440	16,393	74,047
Gross domestic banking profit	1,256,373	1,259,215	(2,842)
Gross international banking profit.....	597,141	243,987	353,154
Transfer to general reserve for possible loan losses	¥ (504,558)	¥ 188,596	¥(693,154)
Expenses (excluding nonrecurring losses).....	(670,145)	(700,128)	29,983
Personnel expenses	(271,788)	(294,004)	22,216
Nonpersonnel expenses.....	(366,637)	(370,589)	3,952
Taxes.....	(31,719)	(35,533)	3,814
Banking profit.....	¥ 678,811	¥ 991,670	¥(312,859)
Banking profit (excluding transfer to general reserve for possible loan losses).....	1,183,369	803,073	380,296
Banking profit (excluding transfer to general reserve for possible loan losses and gains (losses) on bonds)	1,116,808	794,277	322,531

Nonrecurring Losses (Credit Costs, etc.)

Nonrecurring losses amounted to ¥1,200.9 billion, with a credit cost of ¥1,038.5 billion as the main component. (Total credit cost, including transfer to general reserve for possible loan losses, amounted to ¥1,543.1 billion.) Other nonrecurring items included losses on stocks of ¥130.7 billion, mainly attributable to the devaluation of stocks based on the Bank's self-assessment of its stock portfolio. (Please refer to the "Asset Quality" section beginning on page 8 for more information on problem-loan balances and progress in reducing such loans.)

Operating Profit (Loss)

As a result of the foregoing, the operating loss amounted to ¥522.1 billion, an ¥881.3 billion decrease compared with the figure for the previous fiscal year.

Extraordinary Gains (Losses)

The major components of extraordinary gains (losses) of ¥14.5 billion were a gain of ¥22.2 billion from distributions received from the dissolution of subsidiaries and ¥14.2 billion in losses on the disposition of premises and equipment. The loss was largely due to restructuring and merger-related measures that were implemented ahead of schedule. In particular, the Bank recorded losses on sales of closed branches and abolished employee housing, as well as losses related to their restoration or disposition. Another component of the loss was amortization of ¥20.2 billion in net transition obligations from initial application of the new accounting standard for employee retirement benefits.

Net Income (Loss)

The current portion of income taxes totaled ¥32.7 billion, while the deferred portion was ¥246.5 billion under tax-effect accounting. As a result, the net loss was ¥322.8 billion, a ¥460.7 billion decrease compared with the figure for the previous fiscal year.

Operating Profit and Net Income

Year ended March 31	Millions of yen		
	2002 (A)	2001 (B)	Increase (decrease) (A)–(B)
Banking profit (excluding transfer to general reserve for possible loan losses).....	¥ 1,183,369	¥ 803,073	¥ 380,296
Transfer to general reserve for possible loan losses	(504,558)	188,596	(693,154)
Banking profit	¥ 678,811	¥ 991,670	¥(312,859)
Nonrecurring gains (losses)	(1,200,917)	(632,502)	(568,415)
Total credit cost	(1,543,078)	(819,103)	(723,975)
Write-off of loans	(283,895)	(741,432)	457,537
Transfer to specific reserve	(663,184)	(156,496)	(506,688)
Transfer to reserve for losses on loans sold.....	(37,034)	(52,917)	15,883
Losses on loans sold to CCPC	(8,363)	(31,745)	23,382
Losses on sale of delinquent loans	(50,589)	(25,108)	(25,481)
Transfer to loan loss reserve for specific overseas countries.....	4,546	2	4,544
Gains (losses) on stocks	(130,689)	311,421	(442,110)
Gains on sale of stocks	54,196	496,241	(442,045)
Losses on sale of stocks	(54,300)	(66,761)	12,461
Losses on devaluation of stocks.....	(130,585)	(118,057)	(12,528)
Operating profit (loss)	¥ (522,106)	¥ 359,167	¥(881,273)
Extraordinary gains (losses)	(14,531)	(86,056)	71,525
Gains (losses) on disposition of premises and equipment	(14,201)	(30,533)	16,332
Amortization of net transition obligation from initial application of the new accounting standard for employee retirement benefits	(20,167)	(56,528)	36,361
Income taxes, current	(32,737)	(9,526)	(23,211)
Income taxes, deferred	246,522	(125,747)	372,269
Effect of the introduction of enterprise taxes on the banking industry by the Osaka Prefectural Government	—	(32,038)	32,038
Net income (loss)	¥ (322,852)	¥ 137,835	¥(460,687)

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

3. Assets, Liabilities, and Stockholders' Equity

Assets

Nonconsolidated bank assets as of March 31, 2002, were ¥102,082.6 billion, an ¥11,644.9 billion decrease compared with the figure as of March 31, 2001. Loans and bills discounted decreased ¥1,819.5 billion, to ¥59,928.4 billion, owing to weak corporate loan demand amid the prolonged economic slump. Securities decreased ¥6,617.0 billion, to ¥20,443.0 billion, owing to the sale and redemption of short-term Japanese government bonds purchased in the second half of the year ended March 31, 2001, as interest rates declined.

Liabilities

Liabilities as of March 31, 2002, were ¥98,886.1 billion, a ¥10,641.5 billion decrease from the figure as of March 31, 2001. The termination of full deposit insurance caused deposits to increase ¥2,010.5 billion, to ¥61,051.8 billion. Negotiable certificates of deposit decreased ¥5,110.9 billion, to ¥6,577.5 billion.

Stockholders' Equity

Stockholders' equity was ¥3,196.5 billion as of March 31, 2002, a ¥1,003.4 billion decrease compared with the figure as of March 31, 2001. A partial reason for this decline was the ¥427.0 billion reduction in equity of the former Sakura Bank prior to the transfer of its equity to SMBC upon the merger. This reduction comprised two items: charges resulting from the revaluation of land used for business operations and the application of mark-to-market accounting on securities where unrealized losses existed, and the provision of a reserve for unrecognized obligation for payments of employees' prior-service retirement benefits. Also contributing to the decline in stockholders' equity were the net loss of ¥322.8 billion as well as net unrealized losses on other securities of ¥298.0 billion, the result of tax-effect accounting adjustments to net unrealized losses on other securities and other money held in trust, in accordance with the newly adopted mark-to-market accounting standard. On the other hand, the conversion of yen-denominated convertible bonds maturing in 2001 to common stock contributed ¥100.0 billion to stockholders' equity.

As of March 31, 2002, there were 5,709 million shares of common stock and 967 million shares of preferred stock of the Bank outstanding. Excluding preferred stock, stockholders' equity per share was ¥332.02.

Assets, Liabilities, and Stockholders' Equity

March 31	Millions of yen		
	2002 (A)	2001 (B)	Increase (decrease) (A)–(B)
Assets	¥102,082,581	¥113,727,498	¥(11,644,917)
Loans and bills discounted	59,928,368	61,747,880	(1,819,512)
Securities	20,442,996	27,059,978	(6,616,982)
Liabilities	98,886,088	109,527,559	(10,641,471)
Deposits	61,051,813	59,041,313	2,010,500
Negotiable certificates of deposit	6,577,539	11,688,459	(5,110,920)
Stockholders' equity	3,196,492	4,199,937	(1,003,445)

4. Unrealized Gains (Losses) on Securities

As of March 31, 2002, net unrealized losses on securities amounted to ¥484.4 billion, a ¥679.1 billion decline compared with the figure as of April 1, 2001, at the time of the merger. Net unrealized losses on other securities and on other money held in trust, which are deducted from stockholders' equity beginning from the fiscal year under review in accordance with the adoption of mark-to-market accounting, amounted to ¥485.5 billion, a ¥682.3 billion decline

compared with the figure as of April 1, 2001.

The significant amount of unrealized losses on other securities is attributable to a ¥594.7 billion decline in net unrealized gains on stocks compared with the figure as of April 1, 2001. This drop reflects Japan's persistent economic downturn as well as the fall in stock prices sparked by global economic uncertainty in the wake of the September 2001 terrorist attacks in the United States.

Unrealized Gains (Losses) on Securities

March 31, 2002, and April 1, 2001	Millions of yen						
	March 31, 2002				April 1, 2001*		
	Net unrealized gains (losses) (A)	(A)–(B)	Unrealized gains	Unrealized losses	Net unrealized gains (losses) (B)	Unrealized gains	Unrealized losses
Held-to-maturity securities.....	¥ 1,146	¥ 1,206	¥ 1,165	¥ (19)	¥ (60)	¥ 1	¥ (61)
Stocks of subsidiaries and affiliates	(101)	2,000	12,740	(12,841)	(2,101)	6,249	(8,351)
Other securities	(481,654)	(682,065)	244,238	(725,892)	200,411	505,260	(304,849)
Stocks	(500,897)	(594,680)	180,943	(681,841)	93,783	387,839	(294,056)
Bonds	37,783	(67,182)	55,597	(17,814)	104,965	107,521	(2,556)
Others	(18,540)	(20,204)	7,696	(26,236)	1,664	9,899	(8,236)
Other money held in trust.....	(3,825)	(211)	135	(3,960)	(3,614)	811	(4,426)
Total	(484,434)	(679,069)	258,279	(742,714)	194,635	512,324	(317,690)
Stocks	(500,999)	(592,680)	193,684	(694,683)	91,681	394,089	(302,408)
Bonds	38,214	(66,751)	56,029	(17,814)	104,965	107,521	(2,556)
Others	(21,650)	(19,638)	8,566	(30,216)	(2,012)	10,713	(12,725)

- Notes: 1. The figures above include unrealized gains (losses) on negotiable certificates of deposit in "deposits with banks" and commercial papers as well as claims on loan trust in "commercial paper and other debt purchased."
 2. The values of stocks excluding stocks of subsidiaries and affiliates as of March 31, 2002, are calculated using average market prices during the final month of the year ended March 31, 2002. The values of bonds and others are calculated using market prices at March 31, 2002.
 3. Unrealized gains (losses) as of April 1, 2001 (after the merger), are calculated by evaluating the book values of the former Sakura Bank's other securities that had unrealized losses at the market prices as of March 31, 2001.
 4. "Other securities" and "other money held in trust" as of March 31, 2002, are valued at market prices. Consequently, the figures in the above table indicate the differences between the acquisition costs (or amortized costs) and the balance sheet amounts.

* Figures reflect adjustments for merger accounting.

5. Dividend Policy

Given its public nature and respecting the interests of stockholders, the Bank subscribes to a fundamental policy of paying dividends as deemed appropriate in view of the need to increase capital and preserve sound management. After appropriating retained earnings to increase capital and in recognition of the year's large net loss, the Bank paid an

annual dividend of ¥4.00 per share of common stock, ¥2.00 less than for the previous fiscal year. Annual dividends for preferred stock were set at ¥10.50 per share for First series Type 1, ¥28.50 per share for Second series Type 1, and ¥13.70 per share for Type 5, unchanged from the previous fiscal year.