Consolidated Financial Review

As of April 1, 1998, a new accounting standard for consolidated financial statements ("New Standard") has become effective in Japan. The New Standard requires a company to consolidate any subsidiaries if the company substantially controls the subsidiary's operations, regardless of the company's shareholding of the subsidiary.

In accordance with the New Standard, the total of consolidated subsidiaries of the Sumitomo Bank, Limited (the "Bank"), has become 76, including the following newly consolidated subsidiaries for fiscal year 1998: The Sumitomo Credit Service Company, Limited, SB Leasing Company, Limited, Sumigin General Finance Company Limited, Sumigin Guarantee Company, Limited, SB Investment Co., Ltd., and The Bank of Kansai, Ltd. The Bank applied the equity method to record the Bank's investment in 18 affiliates, including Daiwa Securities SB Capital Markets Co. Ltd., The General Finance Company of Tokyo Limited, Japan General Finance Co., Ltd., and The Japan Research Institute, Limited.

Performance during the current term was marked by a large net loss. This was due principally to writing off and recording provisions for problem loans in the amount of more than ¥1.2 trillion, reflecting current economic conditions in Japan. Such losses were recorded in other expense and provision for reserves for possible loan losses in the consolidated statements of income. The Bank estimated the provisions to cover credit losses that are likely to be incurred in the future.

Consolidated net loss exceeded nonconsolidated net loss by ¥194.7 billion in fiscal year 1998. The difference resulted mainly from the following:

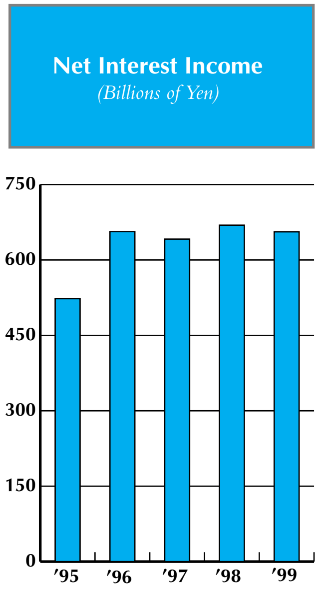
a) The deferred method of accounting had been used for income taxes for the consolidated financial statements. Effective April 1, 1998, the Bank adopted the liability method of accounting for that purpose. The large cumulative effect of the accounting change resulting from decline of the Japanese corporate tax rate over the years was included in the consolidated statements of income for fiscal year 1998. For nonconsolidated financial statements, the Bank adopted deferred tax accounting using the liability method at April 1, 1998. The cumulative effect on the initial application of this accounting method was recorded in retained earnings.

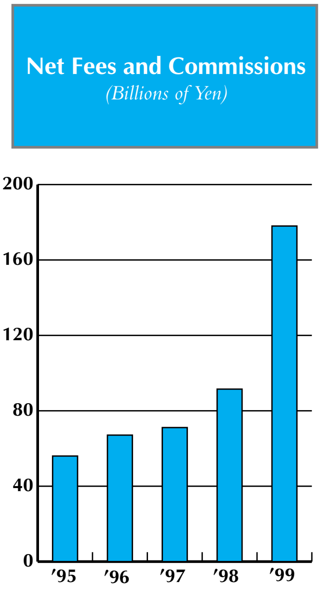
b) New consolidated subsidiaries under the New Standard recorded substantial losses from dealing with their problem assets in accordance with the Self Assessment Rules.

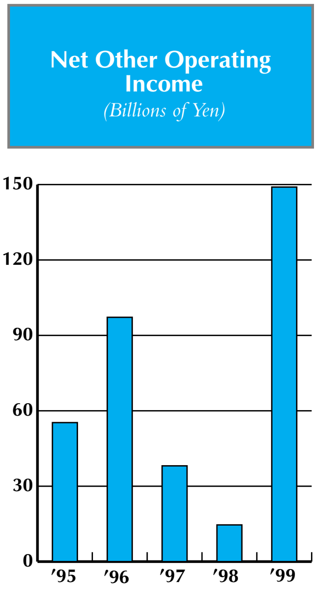
Statement of Income Analysis

Net interest income for fiscal year 1998 amounted to ¥656.2 billion ($5,443.7 million), a decline of 1.9% from the previous year. Net fees and commissions grew 95.0%, to ¥178.4 billion ($1,480.3 million). The increase was attributable to credit card business-related fees earned by a newly consolidated subsidiary under the New Standard above.

Net trading income increased by ¥42.3 billion, to ¥25.5 billion, from a trading loss of ¥16.8 billion in the previous







year, principally due to wide fluctuations in the value of the Japanese yen against the U.S. dollar and further easing of monetary policy by the Bank of Japan (BOJ), which suppressed interest rates.

Net other operating income sharply increased to ¥149.5 billion ($1,240.2 million), due to lease-related revenue earned by the newly consolidated subsidiary under the New Standard above.

General and administrative expenses were up 18.1%, to ¥523.9 billion ($4,346.2 million). Continuance of the Bank's restructuring resulted in a decrease of general and administrative expenses in the nonconsolidated statements of income for fiscal year 1998. However, the Bank recorded an overall increase in its consolidated income statement due to the increased number of consolidated subsidiaries under the New Standard.

Provisions for reserve for possible loan losses decreased 22.1%, to ¥654.2 billion ($5,427.2 million). The Bank changed its reserve policy in connection with revisions in Japanese law discussed below. As a result, the Bank wrote off problem loans which would have been recorded as reserves under the original reserve policy.

Other income totaled ¥188.1 billion ($1,560.5 million), a decrease of ¥119.6 billion, or 38.9%, over a year earlier, chiefly reflecting a decline in gains on sales of corporate stocks. Concurrently, the Bank realized a net gain of ¥71.1 billion from the sale of its majority interest in Banca del Gottardo and a net gain of ¥7.3 billion from the sale of its majority interest in the Sumitomo Bank of California. Also realized were gains on disposition of premises and equipment amounting to ¥69.1 billion. Other expenses totaled ¥778.7 billion ($6,459.8 million), an increase of

Income Summary

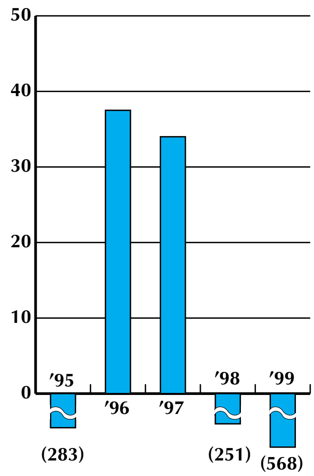
Years ended March 31	Millions of Yen		
	1999	1998	1997
Interest income	¥1,705,261	¥1,993,193	¥2,141,331
Interest expenses	1,049,017	1,324,009	1,499,751
Net interest income	¥ 656,243	¥ 669,184	¥ 641,579
Fees and commissions (income)	¥ 212,090	¥ 152,036	¥ 121,955
Fees and commissions (expenses)	33,634	60,537	50,823
Net fees and commissions	¥ 178,456	¥ 91,499	¥ 71,132
Trading profits	¥ 107,402	¥ 131,608	¥ —
Trading losses	81,847	148,427	—
Net trading profit (loss)	¥ 25,555	¥ (16,819)	¥ —
Other operating income	¥ 615,925	¥ 77,904	¥ 74,946
Other operating expenses	466,419	63,309	36,754
Net other operating income	¥ 149,506	¥ 14,594	¥ 38,191
Other income	¥ 188,119	¥ 307,760	¥ 234,619
Other expenses	778,729	252,178	395,020
General and administrative expenses	523,937	443,646	432,820
Provision for reserve for possible loan losses	654,245	839,723	96,235
Income (loss) before income taxes and minority interests	(759,030)	(469,328)	61,446
Net income (loss)	¥ (568,889)	¥ (251,296)	¥ 34,048
Net income (loss) per share *(Yen)*	(181.48)	(80.00)	10.84

¥526.5 billion, or 208.8%, over a year earlier. This was caused by an increase in write-off claims, provision for reserve for loss on loans sold, loss on sale of loans to the Cooperative Credit Purchasing Co., Ltd., and loss on delinquent loans sold.

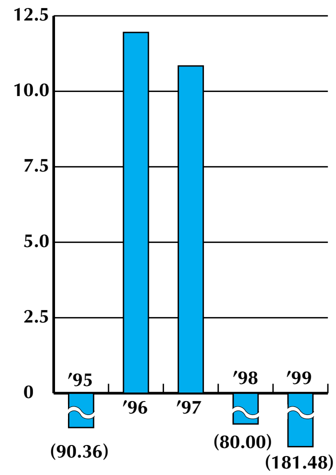
Income Summary

Income before income taxes and minority interests resulted in a loss of ¥759.0 billion ($6,296.4 million), yielding a net loss of ¥568.8 billion ($4,719.1 million). Net loss per share was ¥181.48 ($1.51).

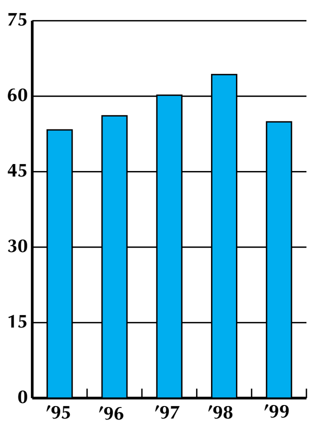
Net Income (Loss)
(Billions of Yen)



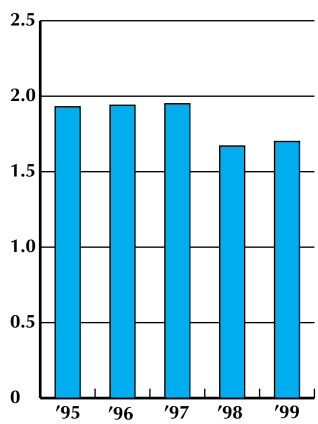
Net Income (Loss) per Common Share
(Yen)



Total Assets
(Trillions of Yen)



Total Shareholders' Equity
(Trillions of Yen)



Balance-Sheet Analysis

Total Assets

As of March 31, 1999, the balance of total assets was ¥54,973.8 billion ($456.0 billion). Compared to the previous year-end, the balance decreased by ¥9,395.6 billion, or 14.6%. This decrease was caused primarily by a decline in deposits with banks and a reduction in loans and bills discounted. In addition, the appreciation of the yen against the U.S. dollar and other major foreign currencies contributed to an overall decrease in total assets. Nonconsolidated assets amounted to ¥51,531.2 billion ($427.5 billion) and accounted for 93.7% of the consolidated total assets.

Total Balance

As of March 31	*Billions of Yen* 1999	1998	1997
Total assets	¥54,973	¥64,369	¥60,229
Total liabilities	52,618	62,407	58,232
Minority interests	598	290	47
Total shareholders' equity	1,757	1,671	1,949
Exchange rate at March 31 (Yen per U.S. Dollar)	¥120.55	¥132.10	¥124.10

Loans and Bills Discounted

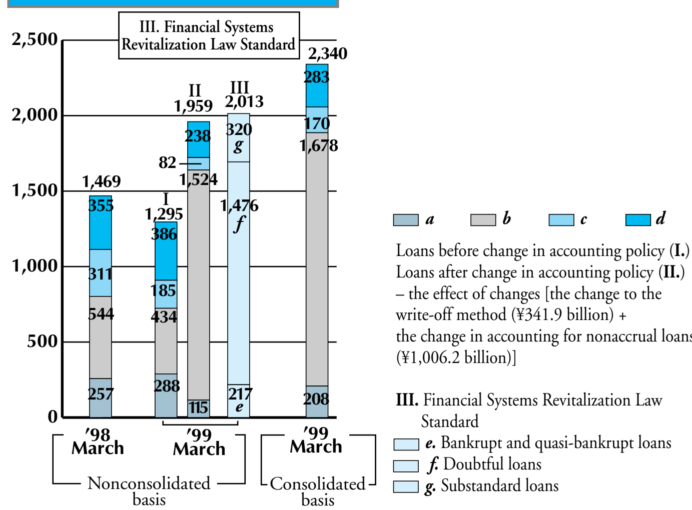
The balance of loans and bills discounted totaled ¥35,589.7 billion ($295.2 billion) at the end of the fiscal year. Compared to the previous fiscal year-end, the balance decreased by ¥1,338.3 billion, or 3.6%. This was principally attributable to a decrease in overseas offices. As part of the Bank's strategy, activities at overseas offices have been streamlined. As a result, a significant decrease was recorded in the balance of loans and bills discounted at the fiscal year-end.

The Japanese Banking Law requires disclosure of problem loans, which are classified as follows:

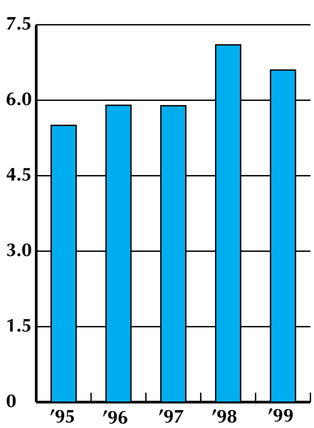
a. Loans to borrowers under legal bankruptcy procedures,
b. Nonaccrual loans, including loans to virtually bankrupt and potentially bankrupt borrowers,
c. Loans past-due for more than three months, excluding virtually bankrupt and potentially bankrupt borrowers, and
d. Restructured loans (loans for financial assistance and loans for which the Bank and subsidiaries have adjusted the terms in favor of borrowers).

The total of the above loans was ¥2,340.6 billion, 6.6% of the total loans and bills discounted at the fiscal year-end.

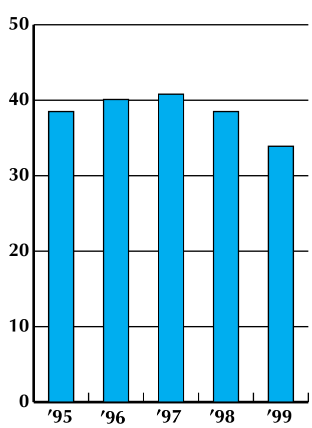
Risk–monitored Loans
(Billions of Yen)



Securities
(Trillions of Yen)



Deposits
(Trillions of Yen)



Securities

At the end of fiscal year 1998, securities amounted to ¥6,642.8 billion ($55.1 billion), a decline of ¥453.3 billion, or 6.4%, from the previous year.

Deposits

Deposits stood at ¥33,908.7 billion ($281.3 billion) as of March 31, 1999, a decrease of ¥4,597.7 billion, or 11.9%, from the previous year. This decrease resulted primarily from the Bank's strategy of streamlining its international operations.

Total Shareholders' Equity

As of March 31, 1999, total shareholders' equity was ¥1,757.1 billion ($14.6 billion), up ¥85.5 billion, or 5.1%, from the preceding year-end. This is primarily because the Resolution and Collection Bank, Limited, subscribed to the issue of ¥501.0 billion in preferred shares and reclassification of accounts, particularly revaluation reserve for land, which resulted in a net addition of ¥165.2 billion, while a large net loss of ¥568.8 billion was recorded.

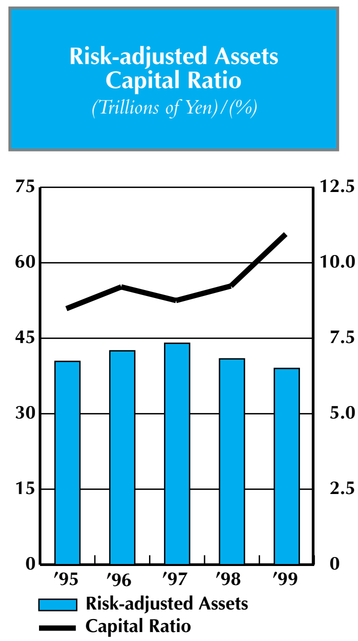
Capital Adequacy

The Bank's risk-based capital adequacy ratio, calculated in accordance with the BIS guidelines, was 10.95% at March 31, 1999, an increase of 1.72% from the prior year. This reflects the large contraction of the risk assets reducing the denominator.

Capital increased by ¥502.3 billion, or 13.3%, to ¥4,282.2 billion. Of this, Tier I capital, including equity and minority interests, rose by ¥231.6 billion, or 11.9%, to ¥2,180.2 billion. Although a consolidated net loss of ¥568.8 billion was recorded, reflecting additional reserves mentioned earlier, an overseas subsidiary raised ¥340.0 billion in noncumulative preferred securities and we solicited ¥501.0 billion in public funds that were subscribed in preferred shares.

Tier II capital, which includes subordinated debt and other forms of capital, grew ¥270.7 billion, or 14.8%, to ¥2,102.0 billion.

Total risk assets fell ¥1,848.7 billion, or 4.5%, to ¥39,083.8 billion, despite the substantial increase under the new accounting standards for consolidation stipulated by the Banking Law, which increased the scope of the subsidiaries included in the accounts. The offset is due to the translation effect of the strong yen diminishing the value of foreign-currency-denominated risk assets in yen terms and the reduced volume of securities transactions in foreign-currency denominated securities and reducing our portfolios of overseas assets.



Capital Ratio (Consolidated)

As of March 31

		Billions of Yen 1999	1998	1997
Tier I capital:	Common shareholders' equity	¥ 1,582.4	¥ 1,658.2	¥ 1,936.3
	Minority interests*	597.8	290.3	47.7
	Subtotal (A)	¥ 2,180.2	¥ 1,948.6	¥ 1,984.0
Tier II capital:	45% of unrealized gains on securities	¥ —	¥ —	¥ 310.9
	45% of unrealized gains on land	128.5	168.5	—
	General reserve for possible loan losses	348.0	176.8	134.5
	Qualifying subordinated debt	1,625.3	1,485.8	1,427.0
	Subtotal (B)	¥ 2,102.0	¥ 1,831.2	¥ 1,872.5
Total capital:	(A) + (B) = (C)	¥ 4,282.2	¥ 3,779.9	¥ 3,856.5
Risk-adjusted assets:	On-balance-sheet	¥35,546.5	¥36,066.3	¥39,126.4
	Off-balance-sheet	3,180.2	4,347.7	4,947.2
	Asset equivalent of market risk	357.0	518.5	—
	Subtotal (D)	¥39,083.8	¥40,932.6	¥44,073.6
	Capital ratio (BIS guidelines) = (C)/(D) × 100	10.95%	9.23%	8.75%

** The Bank issued preferred securities through its subsidiaries, which constituted minority interest in Tier I (see Note 17).*