

Nonconsolidated Financial Review

Reflecting the fiscal year 1998 nonconsolidated results, core banking profit, excluding provision for the general reserve for possible loan losses ("general reserve"), increased from the prior year by ¥59.0 billion, or 17.5%, to ¥396.5 billion. This is primarily attributed to the increased interest income and capital gains on fixed income securities. In addition, substantial cost reduction measures, such as organizational restructuring, contributed to the increase of core banking profit.

Including the effect of the general reserve, the core banking profit was ¥220.2 billion, which is ¥87.8 billion, or 28.5%, lower than the prior year. The Bank estimated the provisions to cover credit losses that are likely to be incurred in the future. This resulted in the increase of provisions by 497.6%, to ¥146.8 billion.

The operating loss, which incorporates gains and losses derived from operations other than the core banking operations, was ¥741.0 billion. This is mainly due to the fact that the Bank recorded, based on its self-assessment, additional credit cost in the amount exceeding ¥1 trillion.

The net loss for the period after applicable taxes was ¥374.1 billion, which is ¥366.9 billion lower than the operating loss. This is the result of the incorporation of gains from the sale of real properties and overseas subsidiaries. Such gains amounted to ¥107.6 billion. Further, the deferred tax credit of ¥280.1 billion was provided as a result of the deferred tax accounting method being applied to the nonconsolidated financial statements.

The chart below shows the five-year trends in key indicators.

MAJOR MANAGEMENT INDICES FOR THE PAST FIVE FISCAL YEARS

Years ended March 31	Billions of Yen				
	1999	1998	1997	1996	1995
Operating income	¥ 1,923.7	¥ 2,331.5	¥ 2,359.3	¥ 2,542.4	¥ 2,812.7
Core banking profit	220.2	308.0	338.2	414.3	243.6
Core banking profit (excluding transfer to general reserve)	396.5	337.5	342.2	420.2	242.1
Operating profit (loss)	(741.0)	(617.3)	51.5	39.6	(335.7)
Net income (loss)	(374.1)	(621.6)	35.3	42.1	(335.4)
Preferred stocks	250.5	—	—	—	—
Common stocks	502.3	502.3	502.3	502.3	502.3
Total number of preferred stocks issued (Million Shares)	167	—	—	—	—
Total number of common stocks issued (Million Shares)	3,141	3,141	3,141	3,141	3,141
Total shareholders' equity	1,846.4	1,138.0	1,786.4	1,777.7	1,762.3
Total assets	51,531.2	58,076.7	57,149.2	54,179.7	52,256.0
Deposits	33,001.3	37,390.0	39,833.8	39,082.0	37,604.7
Loans and bills discounted	33,716.8	35,930.3	36,600.1	35,499.6	33,819.0
Securities	6,679.8	7,256.9	6,004.3	6,115.4	5,658.8
PER SHARE DATA (Yen)					
Shareholders' equity	¥ 428.35	¥ 362.30	¥ 568.73	¥ 565.98	¥ 561.07
Dividend	6.00	8.50	8.50	8.50	8.50
(Interim dividend)	3.00	4.25	4.25	4.25	4.25
Net income (loss)	(119.11)	(197.93)	11.24	13.41	(106.81)
Diluted net income	—	—	11.17	—	/
Payout ratio (percent)	—	—	75.59	63.37	—
Number of employees	14,995	15,111	15,563	16,455	17,247

STATEMENT OF INCOME ANALYSIS

Core Banking Profit

Core banking profit (gross banking profit net of the provision for general reserve and expenses) declined by ¥87.8 billion, or 28.5%, to ¥220.2 billion. This decrease is mainly

attributable to the increased provision for the general reserve. If the transfer is excluded, this figure actually shows a ¥59.0 million, or 17.5%, improvement, to ¥396.5 million. This reflects a ¥39.0 billion, or 5.5%, rise in gross banking profit and a ¥19.9 billion, or 5.3%, drop in expenses, excluding other operating profit or loss.

CORE BANKING PROFIT

	Billions of Yen					
	1999		1998	1997	1996	1995
		Increase/ Decrease				
Years ended March 31						
Gross banking profit						
Net interest income	¥607.0	¥ 17.3	¥589.7	¥598.4	¥628.0	¥498.6
Net fees and commissions (income)	61.1	(7.7)	68.8	65.8	56.1	44.9
Net trading profit	36.6	21.6	15.0	—	—	—
Net other operating income	45.5	7.8	37.7	47.2	89.1	47.6
Total	750.3	39.0	711.3	711.5	773.3	591.1
Provision for general reserve for possible loan losses	(176.3)	(146.8)	(29.5)	(4.0)	(5.9)	1.5
Expenses (excluding other operating loss)	(353.8)	19.9	(373.7)	(369.3)	(353.1)	(349.1)
Core banking profit	220.2	(87.8)	308.0	338.2	414.3	243.6
Core banking profit (excluding transfer to general reserve)	396.5	59.0	337.5	342.2	420.2	242.1

Breakdown of Gross Banking Profit

Interest income rose by ¥17.3 billion, or 2.9%, to ¥607.0 billion. The improvement in gross domestic profit was partly due to a ¥34.1 billion increase in interest on loans and discounts, reflecting the favorable effect of lowered funding costs on the interest rate spread. In contrast, gross international profit plunged by ¥16.7 billion, or 15.0%. This is the result of the reduced volume of trading activities in foreign-currency denominated investments to control foreign currency liquidity risks and reduction of assets, such as loans.

Fees and commissions income fell by ¥7.7 billion, or 11.2%, to ¥61.1 billion. The decrease is attributed to the fact that lending and related services overseas declined by ¥10.9 billion, or 32.4%.

Net trading profit substantially increased by ¥21.6 billion, or 144.0%, to ¥36.6 billion. The increase is due to the reclassification between trading profit and other operating expenses related to currency swap transactions. The actual growth in the net trading profit was approximately 30%. Other operating income grew ¥7.8 billion, or 20.7%, to ¥45.5 billion, mainly because of the gains related to the investment in domestic fixed income securities.

NET INTEREST INCOME

Years ended March 31	Billions of Yen						Percent		
	Average Balance			Interest			Earnings Yield		
	1999			1998			1999		
	Increase/ Decrease			Increase/ Decrease			Increase/ Decrease		
DOMESTIC OPERATIONS	/	/	/	¥512.5	¥ 34.1	¥ 478.4	1.47%	0.04%	1.43%
Interest income	¥34,753.8	¥1,476.4	¥33,277.4	874.1	(30.3)	904.4	2.51	(0.20)	2.71
Loans	28,850.1	1,274.4	27,575.7	593.9	8.4	585.5	2.05	(0.07)	2.12
Dividends on securities	5,788.3	208.5	5,579.8	109.1	(8.5)	117.6	1.88	(0.22)	2.10
Due from banks and others	7.6	(46.5)	54.1	0.0	(1.1)	1.1	0.81	(1.30)	2.11
Interest expenses	31,344.7	800.9	30,543.8	361.6	(64.3)	425.9	1.15	(0.24)	1.39
Deposits	20,354.2	1,244.4	19,109.8	75.1	(12.4)	87.5	0.36	(0.09)	0.45
Negotiable certificate of deposits	5,780.9	379.3	5,401.6	33.3	(0.6)	33.9	0.57	(0.05)	0.62
Borrowed money	4,915.9	(1,149.3)	6,065.2	44.5	(11.3)	55.8	0.90	(0.02)	0.92
INTERNATIONAL OPERATIONS	/	/	/	94.5	(16.7)	111.2	0.82	0.19	0.63
Interest income	11,435.4	(6,150.2)	17,585.6	772.5	(291.4)	1,063.9	6.75	0.70	6.05
Loans	7,358.4	(2,686.5)	10,044.9	365.2	(111.0)	476.2	4.96	0.22	4.74
Dividends on securities	1,401.3	389.2	1,012.1	66.0	9.2	56.8	4.71	(0.90)	5.61
Due from banks and others	1,727.0	(3,874.0)	5,601.0	88.6	(186.0)	274.6	5.13	0.23	4.90
Interest expenses	11,546.5	(6,039.6)	17,586.1	678.0	(274.7)	952.7	5.87	0.46	5.41
Deposits	9,504.5	(5,092.3)	14,596.8	370.6	(232.8)	603.4	3.89	(0.24)	4.13
Negotiable certificate of deposits	446.2	(1,056.6)	1,502.8	27.1	(60.8)	87.9	6.07	0.22	5.85
Borrowed money	1,466.7	106.5	1,360.2	77.3	9.9	67.4	5.27	0.32	4.95
TOTAL	¥ /	¥ /	¥ /	¥607.0	¥ 17.3	¥ 589.7	1.31%	0.16%	1.15%

Notes: 1. Due from banks, others include call loans.

2. Borrowings and rediscounts include call money and bills bought.

2. Interest expenses are shown after deduction of expenses for money held in trust.

NET FEES AND COMMISSIONS

Years ended March 31	Billions of Yen		
	1999		
	Increase/Decrease		
DOMESTIC OPERATIONS	¥38.4	¥ 3.2	¥35.2
Income	66.5	4.8	61.7
Remittance and transfers	33.2	1.8	31.4
Securities related business	6.9	0.6	6.3
Expenses	28.1	1.6	26.5
Remittance and transfers	7.0	0.5	6.5
INTERNATIONAL OPERATIONS	22.7	(10.9)	33.6
Income	37.7	(7.3)	45.0
Remittance and transfers	11.8	(2.0)	13.8
Securities related business	18.6	(4.1)	22.7
Expenses	15.0	3.6	11.4
Remittance and transfers	7.2	2.4	4.8
TOTAL	¥61.1	¥ (7.7)	¥68.8

NET TRADING PROFIT

	Billions of Yen		
	1999	1998	
Years ended March 31	Increase/Decrease		
DOMESTIC OPERATIONS	¥ 5.2	¥ 3.9	¥ 1.3
Trading securities	(0.5)	0.7	(1.2)
Other income	5.7	3.1	2.6
INTERNATIONAL OPERATIONS	31.3	17.7	13.6
Securities	0.8	2.9	(2.1)
Trading related financial derivatives	30.5	14.8	15.7
TOTAL	¥36.6	¥21.6	¥15.0

OTHER OPERATING INCOME

		Billions of Yen		
		1999	1998	
Years ended March 31		Increase/Decrease		
DOMESTIC OPERATIONS		¥50.0	¥14.9	¥35.1
Gains on sale of bonds		49.3	14.7	34.6
INTERNATIONAL OPERATIONS		(4.5)	(7.1)	2.6
Gain on foreign exchange transactions		(2.4)	(4.8)	2.4
Gains on sale of bonds		0.0	0.0	0.0
TOTAL		¥45.5	¥ 7.8	¥37.7

General and Administrative Expenses

Expenses, excluding non-operating expenses such as retirement allowance, were down ¥19.9 billion, or 5.3%, to ¥353.8 billion. Of this, personnel expenses were curtailed by ¥7.5 billion, or 4.7%, through a reduction in employee

compensation expenses. Premises and equipment expenses were also lowered by ¥11.0 billion, or 5.8%, partly due to changes in the accounting depreciation method and procurement policies.

GENERAL AND ADMINISTRATIVE EXPENSES

	Billions of Yen		
	1999		1998
Years ended March 31	Increase/Decrease		
PERSONNEL EXPENSES	¥153.0	¥ (7.5)	¥160.5
Salary and allowance	127.2	(11.1)	138.3
GENERAL EXPENSES	180.3	(11.0)	191.3
Rent and lease expenses	40.5	(0.8)	41.3
Depreciation	16.7	(5.9)	22.6
TAXES, OTHER THAN INCOME TAXES	20.5	(1.4)	21.9
TOTAL	¥353.8	¥(19.9)	¥373.7

Operating Profit

Operating profit is calculated as the ¥396.5 billion core banking profit less the ¥176.3 billion and ¥961.2 billion of

the provision for the general reserve and other operating losses, respectively. This constitutes an operating loss of ¥741.0 billion, or a ¥123.7 billion increase from the prior year.

Other Operating Profit/Loss

Other operating profit/loss yielded a net loss of ¥961.2 billion, approximately the same level as the previous period, mainly owing to loan loss provisions of more than ¥900 billion. Including the ¥176.3 billion in the transfer to the general reserve accounted for in core banking profit, loan loss provisions as a component of other operating loss amounted to ¥1,072.4 billion, a figure relatively unchanged from the previous year.

A breakdown of the total credit cost is as follows. The credit cost for specific problem loans amounted to ¥881.4 billion. The transfer to the loan loss reserve for specific overseas countries, which is taken to ameliorate country risk, amounted to ¥14.7 billion, and the provision for the general reserve, which includes reserves set aside as a precautionary measure, amounted to ¥176.3 billion. A further analysis of the credit cost for specific problem loans consisted of ¥371.8 billion of provision for specific reserves, ¥305.0 billion of write-offs of loans, ¥79.2 billion of provision for the reserve for the loss on loans sold, ¥65.1 billion of losses on problem loans sold, and ¥60.3 billion of losses on the sale of loans to the Cooperative Credit Purchasing Company, Ltd.

Although the total sum of loan loss provisions was approximately at the same level as the prior year, there is a significant difference in the nature of those provisions. While provisions were primarily established as specific reserves in the prior year, the provisions were set up with more focus on establishing precautionary measures against and final disposal of problem loans. This is illustrated by the following. Provision for the general reserve increased by ¥146.8 billion. Provision for the reserve for the loss on loans sold, which is a provision for possible losses on loans sold to the Cooperative Credit Purchasing Company, Ltd., rose by ¥37.0 billion. Furthermore, the hike in the average reserve coverage ratio for Category III assets from 60% to 71.7% resulted in an additional ¥100.0 billion included in provisions. The sale of problem loans was also accelerated, resulting in a ¥21.9 billion increase in losses on problem loans sold.

Losses on the equity investment of ¥37.6 billion were a second factor in the recording of a net other operating loss. A breakdown of this amount shows that net sales of stocks resulted in a ¥17.2 billion loss, while losses from the devaluation of stocks represented ¥20.4 billion. The net loss on sales of equity securities arose from the liquidation of the shares mutually held. The Bank records its marketable securities at cost. However, in compliance with the Commercial Code and Generally Accepted Accounting Principles, the Bank writes off the securities when the devaluation is deemed permanent. At the year-end, the appraisal of listed securities (including income and losses) yielded an unrealized gain of ¥698.7 billion and an unrealized loss of ¥274.0 billion, producing a net unrealized gain of ¥424.7 billion, or a ¥170.0 billion increase over a year earlier.

Extraordinary Profit/Loss

Extraordinary profit increased by ¥74.2 billion, or 222.2%, to ¥107.6 billion. This is primarily due to the gains on the sale of fixed assets and certain overseas subsidiaries. Gains on the disposition of fixed assets generated income of ¥61.2 billion, which was ¥50.1 billion, or 451.4%, higher than in the previous year. This involved the sale of the assets and properties of closed branches and recreational facilities previously provided as employee benefits. The net gain from the sale of subsidiaries was ¥67.3 billion, which is mainly comprised of the sale of the Sumitomo Bank of California in the United States and Banca del Gottardo in Switzerland. To ensure a sufficient reserve for the Bank's pension plan, the Bank has lowered the provisional interest rate (discount rate) and the unfunded liabilities were compensated by an additional contribution of ¥22.7 billion.

Net Income/Loss

Income before income taxes resulted in a loss of ¥633.4 billion, yielding a net loss of ¥374.1 billion due to recognition of deferred tax credit of ¥280.1 billion. The net loss for the period was ¥119.11 per share.

CORE BANKING PROFIT, NET INCOME (LOSS) AND UNAPPROPRIATED RETAINED EARNINGS

Billions of Yen

Years ended March 31	Increase/Decrease		
	1999	1998	1997
CORE BANKING PROFIT (EXCLUDING TRANSFER TO GENERAL RESERVE)	¥ 396.5	¥ 59.0	¥ 337.5
PROVISION FOR GENERAL RESERVE FOR POSSIBLE LOAN LOSSES	(176.3)	(146.8)	(29.5)
OTHER OPERATING PROFIT (LOSS)	(961.2)	(35.9)	(925.3)
Credit cost for specific problem loans	(881.4)	162.4	(1,043.8)
Provision for specific reserve	(371.8)	429.5	(801.3)
Write-off of loans	(305.0)	(238.9)	(66.1)
Provision for reserve for loss on loans sold	(79.2)	(37.0)	(42.2)
Losses on problem loans sold	(65.1)	(21.9)	(43.2)
Losses on sale of loans to the Cooperative Credit Purchasing Co., Ltd.	(60.3)	(2.7)	(57.6)
Losses on financial assistance for affiliates	—	33.4	(33.4)
Provision for loan loss reserve for specific overseas countries	(14.7)	(15.1)	0.4
TOTAL CREDIT COST (NOTE 1)	(1,072.4)	0.6	(1,073.0)
Gains (losses) on sale of stocks	(37.6)	(174.4)	136.8
Gains on sale	9.6	(152.1)	161.7
Losses on sale	(26.8)	(18.0)	(8.8)
Amortization	(20.4)	(4.4)	(16.0)
OPERATING LOSS	(741.0)	(123.7)	(617.3)
EXTRAORDINARY PROFIT (LOSS)	107.6	74.2	33.4
Gains (losses) on disposition of premises and equipment	61.2	50.1	11.1
Gains from sale of subsidiaries and losses from disposition of subsidiaries	67.3	67.3	—
Additional contribution to pension plans	(22.7)	(22.7)	—
INCOME (LOSS) BEFORE INCOME TAXES	(633.4)	(49.5)	(583.9)
Income taxes			
Current	(20.8)	16.9	(37.7)
Deferred	280.1	280.1	—
NET INCOME (LOSS)	¥ (374.1)	¥ 247.5	¥ (621.6)
Unappropriated retained earnings brought forward	16.8	(2.8)	19.6
Cumulative effect of initial application of deferred income tax accounting	439.8	439.8	—
Transfer from reserve for losses on overseas investments	0.0	0.0	—
Declared interim dividends	(9.4)	3.9	(13.3)
Transfer to legal reserve	(1.8)	0.8	(2.6)
UNAPPROPRIATED RETAINED EARNINGS	71.2	689.2	(618.0)

Notes: 1. Total credit cost = Provision for general reserve for possible loan losses + Credit cost for specific problem loans + Loan loss reserve for specific overseas countries.

2. Enterprise tax was accounted for in the other operating profit (loss) in the fiscal year ended March 31, 1998. This fiscal year, the tax is included in income taxes (current).

3. This fiscal year, the Bank adopted the deferred tax accounting method.

ASSETS AND LIABILITIES

Total Assets

At March 31, 1999, total assets amounted to ¥51,531.2 billion, which represents a decline of ¥6,545.5 billion, or 11.3%, from the previous year. One of the factors lowering the asset value was the yen rate against U.S. dollar at March 31, 1999 (U.S.\$1=¥120.55) versus 1998 (U.S.\$1=¥132.10), which lowered the value of foreign-currency denominated assets in yen. The Bank strategically reduced the trading activities of the foreign-currency denominated assets to mitigate foreign currency liquidity risks. We also reduced lending activities in our overseas branches to curtail risk assets.

Loans and Bills Discounted

The balance of loans and bills discounted was ¥33,716.8 billion, down ¥2,213.4 billion, or 6.2%. Domestic lending declined slightly by ¥12.8 billion. However, the decrease is due to the direct write-offs of nonperforming loans. New lending, particularly housing loans, actually increased. In contrast, the balance of outstanding loans of the international division substantially decreased by ¥2,200.6 billion, or 26.8%, to ¥6,019.0 billion. This is attributable to the translation effect of the strong yen and a marked slowdown in lending by our overseas branches to reduce risk assets.

Deposits and Negotiable Certificates of Deposit (NCDs)

Deposits amounted to ¥27,223.6 billion with a decrease of ¥5,300.0 billion, or 16.3%. The breakdown reveals that a ¥247.2 billion, or 2.0%, increase in deposits from individual customers was the primary reason for a ¥226.7 billion, or 1.1%, gain in deposits in the domestic divisions. Deposits in the international divisions plunged ¥5,526.7 billion, or 45.9%. The large contraction in international deposits is a result of the translation effect of the strong yen on foreign-currency denominated funds as well as the reduction of dealing positions in foreign-currency denominated assets to mitigate foreign currency liquidity risks.

NCDs rose ¥911.2 billion, or 18.7%, to ¥5,777.6 billion, owing to a ¥1,464.2 billion, or 36.2%, increase in domestic accounts, which offset a ¥552.9 billion, or 67.6%, decrease in the overseas accounts.

SHAREHOLDERS' EQUITY

Equity

At March 31, 1999, total shareholders' equity amounted to ¥1,846.5 billion, up ¥708.5 billion, or 62.3%, from the prior year. There are two primary reasons for this gain. First, the Resolution and Collection Bank, Limited, underwrote the issue of ¥501.0 billion in preferred shares. Second, a reclassification of reserve for revaluation for land resulted in a net addition of ¥164.5 billion to equity. In the prior year, the Bank transferred ¥374.5 billion to a reserve in accord with the Law concerning the Revaluation Reserve for Land. The portion of the reserve pertaining to disposed land during this period, amounting to ¥90.9 billion, was reversed and, according to the March 1999 revision of the law, the remaining balance was reclassified as equity in the revaluation reserve for land, net of tax, in the amount of ¥119.1 billion.

The Bank recorded a pre-tax loss of ¥633.4 billion as a result of write-offs and provision for reserves amounting to more than ¥1 trillion. However, retained earnings amounted to ¥186.8 billion as tax credit contributed ¥719.9 billion.

At March 31, 1999, 3,141 million shares of common stock and 167 million preferred shares were issued and outstanding. Excluding preferred shares, net assets per share amounted to ¥428.35, an increase of ¥66.0 over the prior year-end.

DIVIDEND POLICY

The management of the Bank has modified its dividend policy, in light of the unprecedented competition in the financial services industry. Dividend policy up to now has focused on providing stable returns to shareholders. Under today's new environment, we believe it is prudent to adopt a dividend policy emphasizing a sound capital structure from which to increase shareholder value in line with global standards.

In consideration of the financial results for the recent periods, the annual cash dividend for the period was determined to be ¥6.00 per share, down ¥2.5 per share from the prior year.