Notes to Consolidated Financial Statements

The Sumitomo Bank, Limited, and Subsidiaires
March 31, 1999, 1998 and 1997

1. Basis of Financial Statements

The Sumitomo Bank, Limited (the "Bank"), a Japanese corporation, maintains its records and prepares its financial statements in Japanese yen.

The Bank and its consolidated domestic subsidiaries maintain their accounts and records in accordance with accounting principles and prevailing practices generally accepted in the banking industry in Japan, such as the Uniform Rules of Bank Accounting (the "Uniform Rules"), which are different from accounting and disclosure requirements of the International Accounting Standards.

The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and the practices prevailing in the respective countries of domicile.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of shareholders' equity and cash flows have been prepared for the purpose of inclusion of such statements in the consolidated financial statements, although such statements are not required in Japan.

Amounts less than one million yen have been omitted. As a result, the totals in Japanese yen shown in the financial statements do not necessarily agree with the sum of the individual amounts.

For the convenience of the readers, the accompanying U.S. dollar financial statements have been translated from Japanese yen, as a matter of arithmetical computation only, at the rate of ¥120.55 to US$1, the exchange rate prevailing at March 31, 1999. The translations should not be construed as a representation that Japanese yen have been or could have been converted into U.S. dollars at that rate.

2. Significant Accounting Policies

(a) Consolidation

The consolidated financial statements include the accounts of the Bank and its significant subsidiaries. All significant intercompany balances and transactions have been eliminated.

Effective April 1, 1998, a new accounting standard of consolidated financial statements (the "New Standard") has been adopted in Japan. The New Standard required a company to consolidate any subsidiaries of which the company substantially controls the operations, even if it is not a majority owned subsidiary. Control exists where the company has (a) a power to appoint or remove the majority of the numbers of the board of directors or equivalent governing body; or (b) a power to cast the majority of the votes at meetings of the board of directors or equivalent governing body, etc.

The consolidated financial statements include the accounts of consolidated subsidiaries, of which the fiscal year ends on or after December 31. In case that these subsidiaries have a significant transaction during the period from their fiscal year-end to March 31, the Bank will make an adjustment to the consolidated financial statements to be comprehensive.

The difference at the time of acquisition between the cost of an investment in a consolidated subsidiary and the underlying equity in its net assets is, in general, charged or credited to income directly.

Investments in nonconsolidated subsidiaries and affiliated companies are accounted for in accordance with the equity method.

Net loss for such investments for fiscal year 1998 was ¥3,456 million and recorded as other expenses.

(b) Cash flows

For the purposes of the consolidated statements of cash flows, cash and cash equivalents represent cash and due from banks.

(c) Trading assets and liabilities

Effective April 1, 1997, the Bank adopted the amended Uniform Rules which require that the trading assets and liabilities, which are held for the short term in anticipation of market gains, be carried at fair value. Such gains and losses are included in trading profits or losses on the consolidated statements of income.

The securities classified as trading assets and liabilities are recorded at fair value.

The Uniform Rules also requires trading assets and liabilities to be accounted for based on a trading date whereas the original Uniform Rules required a settlement date.

Prior to April 1, 1997, trading account securities including government bonds and corporate bonds were stated at the lower of cost or market value and unlisted trading account securities were stated at cost. The cost of trading account securities sold was determined by the moving-average method.

The effect of change in the accounting method on the year ended March 31, 1998, decreased loss before income taxes and minority interests by ¥5,944 million.

(d) Securities

Securities, including corporate stocks, corporate bonds, Japanese national and local government bonds, are stated at the moving-average cost.

Securities included in money held in trust account were also recorded at moving-average cost.

Effective April 1, 1997, the Bank changed its method of valuing corporate stocks, corporate bonds and other securities listed on stock exchanges, from the lower of cost or market to the cost method in accordance with the amended Uniform Rules which permit the Bank to record the securities either at the lower of cost or market, or at cost. Previously, the Uniform Rules permitted the Bank to record the securities mentioned above at the lower of cost or market. The Bank believes that the cost method more appropriately reflects its operations, excluding temporally declined value of corporate stock, corporate bonds and other securities which are held with the intention other than short-term sale.

The effect of change in the accounting method on the year ended March 31, 1998, decreased loss before income taxes and minority interests by ¥242,962 million.

(e) Nonaccrual loans

Prior to April 1, 1998, loans which were overdue for more than six months were generally placed on nonaccrual status based on the Corporate Tax Law.

Effective April 1, 1998, the Bank changed the above policy and loans are generally placed on nonaccrual status when such loans are classified as Loss and Doubtful by the self-assessment rule (see "Reserve for possible loan losses").

(f) Premises and equipment

Premises and equipment are generally stated at cost less accumulated depreciation. The Bank's premises other than buildings and equipment are computed by the declining-balance method over the estimated useful lives of the respective assets.

Prior to April 1, 1998, the Bank computed depreciation for buildings by the declining-balance method. Effective April 1, 1998, the Corporate Tax Law requires the adoption of the straight-line method of depreciation for newly obtained buildings. Accordingly, the Bank decided to use the same depreciation method for all of its existing buildings in line with the newly obtained ones.

The effect of the change in depreciation method for the year ended March 31, 1999, decreased loss before income taxes and minority interests by ¥3,982 million.

Prior to April 1, 1997, the Bank was required to compute depreciation for buildings at 160% of normal depreciation by the Uniform Rules. However, such requirement has become no longer effective as of April 1, 1997. As a result, the Bank decided to use the same depreciation method used for the rest of premises and equipment described above.

The effect of the change in depreciation method on the year ended March 31, 1998, decreased loss before income taxes and minority interests by ¥4,808 million.

Depreciation of premises and equipment owned by consolidated domestic subsidiaries is mainly computed by the declining-balance method, while depreciation of those owned by consolidated overseas subsidiaries is mainly computed by the straight-line method, over the estimated useful lives of respective assets.

(g) Reserve for possible loan losses

According to the Uniform Rules, the Bank implemented a self-assessment rule for the credit quality of assets ("self-assessment rule") in fiscal 1997. Based on the self-assessment rule, the Bank classifies a loan into the following three risk categories based on the borrower's credit risk: Loss, Doubtful and Substandard. Classification was determined at first by loan officers; subsequently the Credit Review Department evaluates the classification independently.

During fiscal 1998, the Bank started writing off the unsecured portion of Loss loans from its balance sheet rather than recording reserves. For the year ended March 31, 1999, the Bank and the consolidated subsidiaries wrote off ¥508,906 million.

The Bank provides specific reserves individually for Doubtful loans. A reserve amount for a Doubtful loan is generally determined considering the collateral and other pertinent indicators specific to the borrower.

The Bank also provides general reserve for Substandard and nonclassified loans collectively. The ratio of the general reserve is determined based on the Bank's loan loss experience and current economic condition.

The Bank provides another general reserve for the loans originated in certain countries and areas based on management's assessment of current economic or political conditions of such countries and areas.

The consolidated subsidiaries have been providing reserves for possible loan losses in the amounts considered adequate to provide for losses that can be reasonably anticipated on the basis of management's assessment of loan portfolios.

(h) Reserve for loss on loans sold

Reserve for loss on loans sold provides for contingent losses arising from decline of market value of underlying collateral for loans sold to the Cooperative Credit Purchasing Company, Limited.

(i) Reserve for retirement allowances and pension plans

Under the terms of the Bank's retirement plan, substantially all employees are entitled to a lump-sum payment at the time of retirement. The amount of the retirement allowance is, in general, based on length of service, basic salary at the time of retirement and reason for retirement. The liability for lump-sum payments is stated, in accordance with the Uniform Rules, at the amount which would be required to be paid by the Bank if all eligible employees voluntarily retired at the balance sheet date.

In addition, the Bank has contributory funded pension plans which substantially cover all employees. Annual contributions, which consist of normal costs and amortization of prior service costs, are included in general and administrative expenses. Unamortized prior service costs amounting to ¥23,058 million ($191 million) at March 31, 1998 (the most recent valuation date), are to be amortized over a period of 5 years and 1 month.

Several consolidated subsidiaries have funded pension plans for employees.

(j) Translation of foreign currencies

(i) The foreign currency financial statements have been translated into Japanese yen at the exchange rate prevailing at respective year-ends, except for the opening balances of retained earnings which are carried from previous fiscal years and changes in shareholders' equity accounts including net income and dividends which are translated at historical rates.

(ii) (a) Foreign currency assets and liabilities of the Bank are translated into Japanese yen at the exchange rate prevailing at the date of the consolidated balance sheets, except that certain special accounts, as approved by Japanese regulatory authorities, are translated at their historical rates.

(b) Foreign currency accounts held by the consolidated subsidiaries are translated into the currency of the subsidiary at the exchange rate prevailing at the respective year-ends.

(iii) Foreign exchange trading positions, including spot, forward, currency futures and currency options contracts, are valued at estimated prevailing market rates and the resulting gains and losses are included in the accompanying consolidated statements of income.

(k) Lease transactions

Finance leases where the ownership of the property is deemed to be transferred to the lessee are capitalized, while other finance leases can be accounted for as operating leases.

(l) Income taxes

Income taxes are provided for on a basis of income for financial statement purposes. The effect of the timing difference recognition of income and expense between financial statement purposes and income tax purposes was reported as deferred income taxes.

Effective April 1, 1998, a new accounting standard for income tax accounting has been adopted in Japan. According to this new standard, a deferred tax asset and liability is recognized for the future tax effects derived from temporary differences and carry-forwards with appropriate valuation reserve, if necessary. The cumulative effect of this accounting change was included in the "Income taxes—Deferred" in the consolidated statements of income for the year ended March 31, 1999, and decreased the net loss by ¥27,234 million.

(m) Amounts per share

Net income (loss) per share is computed by deducting dividends for preferred stock from net income (loss), divided by the weighted average number of shares of common stock, excluding treasury shares and parent company's shares held by subsidiaries, outstanding during each fiscal year.

Declared dividends per share represent the cash dividends declared applicable to respective years, including dividends paid after the end of the year.

(n) Reclassifications

Certain prior year amounts have been reclassified to conform to the 1999 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

3. Trading Assets

Trading assets at March 31, 1999 and 1998, consisted of the following:

	Millions of Yen		*Millions of U.S. Dollars*
	1999	1998	1999
Trading securities*	¥ 722,726	¥3,267,142	$ 5,995
Derivatives on trading securities	655	176	5
Derivatives on securities related to trading transactions	25	132	0
Trading-related financial derivatives	777,476	757,539	6,450
Other trading assets**	1,176,559	1,346,613	9,760
	¥2,677,442	¥5,371,603	$22,210

* Trading securities included securities purchased under resale agreements of approximately ¥366 billion and ¥2,156 billion at March 31, 1999 and 1998, respectively.

** Other trading assets included certificates of deposit and commercial paper in trading account.

4. Securities

Securities at March 31, 1999 and 1998, consisted of the following:

	Millions of Yen		*Millions of U.S. Dollars*
	1999	1998	1999
Japanese government bonds	¥1,425,259	¥1,874,928	$11,823
Japanese local government bonds	361,144	328,558	2,996
Japanese corporate bonds and financial debentures	619,953	605,088	5,143
Japanese corporate stocks	2,950,536	3,025,137	24,475
Other securities	1,285,995	1,262,497	10,668
	¥6,642,890	¥7,096,210	$55,105

5. Loans and Bills Discounted

Loans and bills discounted at March 31, 1999 and 1998, consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	1999	1998	1999
Bills discounted	¥ 509,122	¥ 723,275	$ 4,223
Loans on notes and deeds	26,672,490	27,089,959	221,257
Overdrafts	8,408,167	9,114,891	69,748
	¥35,589,779	¥36,928,127	$295,228

Nonaccrual loans include loans made to borrowers who are under legal bankruptcy procedure and other nonaccrual loans. During fiscal year 1998, the Bank and consolidated subsidiaries decided to classify loans made to borrowers categorized as "virtually bankrupt" or "potentially bankrupt" for self-assessment rule as nonaccrual status regardless of the overdue period.

The following summarizes the nonaccrual loans of the Bank and consolidated subsidiaries as of March 31, 1999.

	Millions of Yen	Millions of U.S. Dollars
Loans to borrower under legal bankruptcy procedure	¥ 208,327	$ 1,728
Other nonaccrual loans	1,678,401	13,923
Total nonaccrual loans	¥1,886,728	$15,651

During fiscal year 1998, the Bank and consolidated subsidiaries changed their policy for the write-off of problem loans. The new policy was to write off any loans classified as "Loss" by the self-assessment rule. Such policy change attributed to the decrease of nonaccrual loan balance as of March 31, 1999. The effect of the new policy for "Loans to borrowers under legal bankruptcy procedure" and "other nonaccrual loans" amounted to ¥239,424 million ($1,986 million) and ¥214,066 million ($1,776 million), respectively. During fiscal year 1998, the Bank and consolidated subsidiaries also decided to classify loans overdue by three months or more as problem delinquent loans, and such loan balance as of March 31, 1999, was ¥170,936 million ($1,418 million).

Restructured loans are loans for financial assistance and loans for which the Bank and consolidated subsidiaries have adjusted the terms in favor of borrowers, which amounted to ¥282,965 million ($2,347 million) at March 31, 1999.

6. Other Assets

Other assets at March 31, 1999 and 1998, consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	1999	1998	1999
Accrued income and prepaid expenses	¥ 420,997	¥ 646,258	$ 3,492
Other	2,498,091	3,668,901	20,723
	¥2,919,089	¥4,315,159	$24,215

7. Premises and Equipment

Premises and equipment at March 31, 1999 and 1998, consisted of the following:

	Millions of Yen 1999	1998	*Millions of U.S. Dollars* 1999
Land*	¥ 451,421	¥ 491,336	$ 3,745
Buildings	277,712	284,089	2,304
Equipment and others	281,650	309,010	2,336
	1,010,783	1,084,435	8,385
Accumulated depreciation	(324,704)	(342,767)	(2,694)
	¥ 686,079	¥ 741,668	$ 5,691

* Land included revaluation reserve for land referred to in Note 16.

8. Lease Assets

	Millions of Yen 1999	1998	*Millions of U.S. Dollars* 1999
Equipment and others	¥2,182,991	¥6,520	$18,109
Accumulated depreciation	(1,348,590)	(—)	(11,187)
	¥ 834,401	¥6,520	$ 6,922

9. Deposits

Deposits at March 31, 1999 and 1998, consisted of the following:

	Millions of Yen 1999	1998	*Millions of U.S. Dollars* 1999
Demand deposits	¥ 1,825,084	¥ 1,829,088	$ 15,140
Savings deposits	6,132,728	4,824,265	50,873
Deposits at notice	3,912,643	7,530,770	32,457
Time deposits	13,254,186	15,012,518	109,947
Other deposits	2,973,222	4,451,207	24,663
Certificates of deposit	5,810,931	4,858,698	48,203
	¥33,908,797	¥38,506,547	$281,283

10. Trading Liabilities

Trading liabilities at March 31, 1999 and 1998, consisted of the following:

	Millions of Yen 1999	1998	*Millions of U.S. Dollars* 1999
Trading securities*	¥ 702,061	¥3,344,409	$ 5,824
Derivatives on trading securities	4	176	0
Derivatives on securities related to trading transactions	68	55	1
Trading-related financial derivatives	677,768	565,347	5,622
	¥1,379,903	¥3,909,990	$11,447

* Trading securities included securities sold under repurchase agreements of approximately ¥482 billion and ¥2,622 billion at March 31, 1999 and 1998, respectively.

11. Borrowed Money

Borrowed money at March 31, 1999 and 1998, consisted of the following:

	Millions of Yen		*Millions of U.S. Dollars*
	1999	1998	1999
Bills rediscounted	¥ 36,064	¥ 99,815	$ 299
Subordinated debt obligation	726,000	782,000	6,023
Borrowings from The Bank of Japan and other financial institutions	2,055,744	1,239,662	17,053
	¥2,817,809	¥2,121,477	$23,375

12. Bonds

Bonds included subordinated bonds of ¥971,165 million ($8,056 million) and ¥964,369 million at March 31, 1999 and 1998, respectively.

13. Convertible Bonds

Convertible bonds at March 31, 1999 and 1998, consisted of the following:

	Millions of Yen		*Millions of U.S. Dollars*
	1999	1998	1999
Convertible bonds payable in U.S. dollars:			
$3^1/_8$% due 2004, convertible into common stock at ¥3,606.90 ($29.92) per share	¥ 1,106	¥ 1,106	$ 9
$^3/_8$% due 2001, convertible into common stock at ¥1,239.00 ($10.28) per share	100,000	100,000	830
	¥101,106	¥101,106	$839

14. Other Liabilities

Other liabilities at March 31, 1999 and 1998, consisted of the following:

	Millions of Yen		*Millions of U.S. Dollars*
	1999	1998	1999
Accrued expenses and unearned income	¥ 324,632	¥ 391,331	$ 2,693
Income taxes	10,362	28,154	86
Employees' deposits	43,459	43,143	360
Cash collateral on bonds lent	2,122,487	2,583,961	17,606
Trading-related accounts payable	1,138,321	1,091,100	9,443
Other	2,142,858	2,962,278	17,775
	¥5,782,119	¥7,099,968	$47,963

15. Acceptances and Guarantees

Acceptances and guarantees at March 31, 1999 and 1998, consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	1999	1998	1999
Letters of credit	¥ 143,010	¥ 945,110	$ 1,186
Acceptances	20,073	29,198	167
Guarantees	1,784,760	1,797,256	14,805
	¥1,947,843	¥2,771,565	$16,158

The Bank guarantees bill payments and trust receipts of merchandise and extends guarantees for freight-to-collect, deferred tax payments and to small businesses for loans received from official agencies. In international operations, the Bank issues letters of credit for import transactions and standby letters of credit, as well as extending other guarantees. These contingent liabilities are accounted for in "Acceptances and guarantees," with a corresponding amount recorded in the customers' account for contingent claim of a guarantor's right of indemnity in "Customers' liabilities for acceptances and guarantees."

16. Revaluation Reserve for Land

Pursuant to Article 2, Paragraphs 3 and 4 of the Enforcement Ordinance for the Law concerning Revaluation Reserve for Land (the "Law"), effective March 31, 1998, the Bank recorded its own land at the fair value of ¥475,985 million (the original book value was ¥101,453 million) as of March 31, 1998, and the related net unrealized gain was reported in liabilities as "revaluation reserve for land." Effective March 31, 1999, the Law has been revised for presentation of the unrealized gain. According to the revised Law, net unrealized gain reported in liabilities shall be reclassified in a separate component of shareholders' equity net of applicable income taxes as "Revaluation reserve for land (¥164,551 million), net of tax (¥119,060 million)" as of March 31, 1999. According to the revised Law, the Bank is not permitted to revalue the land at any time, even in case the fair value of the land declines. Such unrecorded revaluation loss as of March 31, 1999, was ¥25,025 million. A subsidiary of the Bank also has applied the revised Law and recognized revaluation gains as of March 31, 1999.

17. Minority Interests

SB Treasury Company, L.L.C., a subsidiary of the Bank, issued noncumulative preferred securities, totaling $1.8 billion in February 1998. SB Equity Securities (Cayman), Limited, a subsidiary of the Bank, issued floating noncumulative preferred securities, totaling ¥340 billion in March 1999. Both subsidiaries are consolidated and the preferred securities are accounted for as minority interests.

18. Shareholders' Equity

Under the Banking Law of Japan, the Bank is required to appropriate as a legal reserve an amount equal to at least 20 percent of cash disbursements in each period until the legal reserve equals 100 percent of the common stock. The capital surplus and legal reserve are not available for distribution as dividends but may be used to reduce a deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors.

In accordance with the new disclosure requirements effective from the year ended March 31, 1999, legal reserve is included in retained earnings for 1999. Previously it was presented as a separate component of the shareholders' equity.

The Commercial Code of Japan provides that at least one-half of the proceeds from shares issued at prices in excess of par value be included in common stock. In conformity therewith, the Bank has divided the paid-in amount of the stock issued upon conversion of bonds and notes into common stock equally between common stock and capital surplus.

In accordance with the law concerning Emergency Measures for the Early Strengthening of the Functions of the Financial System, the Bank issued a series of noncumulative preferred stock in the aggregate amount of ¥501 billion (the first issuance of 67 million shares at ¥201 billion and the second issuance of 100 million shares at ¥300 billion). All of the preferred stock has been subscribed by The Resolution and Collection Bank, Limited, on March 30, 1999. The noncumulative preferred stocks are redeemable at the option of the Bank at any time. The initial ¥201 billion in Preferred Shares is convertible into common stock of the Bank at any time from May 1, 2002, until February 26, 2009, while the subsequent ¥300 billion in Preferred Shares is convertible into common stock of the Bank at any time from August 1, 2005, until February 26, 2009, in each case subject to certain adjustments to the conversion period.

19. Other Operating Income

Other operating income for each of the three years in the period ended March 31, 1999, consisted of the following:

	Millions of Yen			Millions of U.S. Dollars
	1999	1998	1997	1999
Gains on foreign exchange transactions	¥ 11,588	¥12,988	¥ 7,248	$ 96
Gains on trading account securities	—	—	4,458	—
Gains on sale of bonds	110,753	60,405	51,488	918
Gains on redemption of bonds	3,803	2,955	3,121	32
Lease-related income	467,129	450	191	3,875
Other	22,651	1,105	8,438	188
	¥615,925	¥77,904	¥74,946	$5,109

20. Other Income

Other income for each of the three years in the period ended March 31, 1999, consisted of the following:

	Millions of Yen			Millions of U.S. Dollars
	1999	1998	1997	1999
Gains on sale of stocks and other securities	¥ 13,265	¥202,757	¥169,956	$ 110
Gains on money held in trust	1,716	3,768	2,288	14
Gains on dispositions of premises and equipment	69,168	19,197	1,928	574
Recoveries of written-off claims	2,453	506	1,517	21
Gains on sales of majority interest of the Sumitomo Bank of California and Banca del Gottardo	78,440	—	—	651
Other	23,074	81,530	58,929	191
	¥188,119	¥307,760	¥234,619	$1,561

21. Other Operating Expenses

Other operating expenses for each of the three years in the period ended March 31, 1999, consisted of the following:

	Millions of Yen			Millions of U.S. Dollars
	1999	1998	1997	1999
Losses on sale of bonds	¥ 30,654	¥28,018	¥22,113	$ 254
Losses on redemption of bonds	8,593	10,146	9,872	71
Losses on devaluation of bonds	5,661	813	275	47
Lease-related expenses	402,818	88	79	3,342
Other	18,691	24,243	4,414	155
	¥466,419	¥63,309	¥36,754	$3,869

22. Other Expenses

Other expenses for each of the three years in the period ended March 31, 1999, consisted of the following:

	Millions of Yen			*Millions of U.S. Dollars*
	1999	1998	1997	1999
Write-off of loans	¥369,481	¥ 66,373	¥130,495	$3,065
Losses on sale of stocks and other securities	30,336	49,994	1,413	252
Losses on devaluation of stocks and other securities	33,891	16,076	120,289	281
Losses on money held in trust	5,253	2,290	1,320	44
Losses on dispositions of premises and equipment	7,547	8,140	3,474	63
Transfer to other reserves	—	2	6,693	—
Other*	332,221	109,303	131,333	2,755
	¥778,729	¥252,178	¥395,020	$6,460

* Other included the following:

	Millions of Yen			*Millions of U.S. Dollars*
	1999	1998	1997	1999
Losses on sale of loans to the Cooperative Credit Purchasing Co., Ltd.	¥ 60,269	¥57,591	¥29,920	$500
Transfer to reserve for loss on loans sold	79,169	42,242	42,172	657
Losses on financial assistance for affiliates	—	33,400	30,000	—
Loss on delinquent loans sold	105,293	43,221	—	873
Additional contribution to pension fund	22,660	—	—	188
Tax expense (credit) on enterprise tax	—	(77,479)	—	—

23. Income Taxes

Income taxes consist of corporation and inhabitants' taxes for the years ended March 31, 1998 and 1997. The applicable statutory tax rates were approximately 45.3% for the two years ended March 31, 1998.

Enterprise tax is also charged on income and is deductible for corporation and inhabitant taxes when paid. The statutory enterprise tax rate for the two years ended March 31, 1998, was 12.6%. Enterprise tax expense is included in "Other expenses" in the accompanying consolidated statements of income, and enterprise tax payable is included in "Other liabilities" in the accompanying consolidated balance sheets.

Effective April 1, 1998, a new accounting standard for income tax accounting has been adopted in Japan. According to this new standard, income taxes consist of current and deferred corporation, inhabitants' and enterprise taxes. The effective tax rates were approximately 42.0% for the year ended March 31, 1999.

Significant components of deferred tax assets and liabilities as of March 31, 1999, are as follows:

	Millions of Yen	*Millions of U.S. Dollars*
Deferred tax assets:		
Reserve for possible loan losses	¥441,701	$3,664
Net operating loss carryforwards	146,348	1,214
Write-off of loans	108,607	901
Reserve for loss on loans sold	58,672	487
Other	95,190	789
Subtotal	850,518	7,055
Valuation allowance	(20,363)	(169)
Total deferred tax assets	830,155	6,886
Deferred tax liabilities:		
Leveraged lease	20,790	172
Other	9,817	81
Total deferred tax liabilities	30,607	253
Net deferred tax asset	¥799,548	$6,633

24. Lease Transactions

Financing leases without transfer of ownership at March 31, 1999, consisted of the following:

(a) Lessee side

	Millions of Yen			*Millions of U.S. Dollars*		
	Acquisition Cost	*Accumulated Depreciation*	*Net Book Value*	*Acquisition Cost*	*Accumulated Depreciation*	*Net Book Value*
Equipment	¥6,029	¥3,217	¥2,811	$50	$27	$23
Other	9	1	8	0	0	0
	¥6,038	¥3,218	¥2,819	$50	$27	$23

Future minimum lease payments as of March 31, 1999, including interest under such leases, were as follows:

	Millions of Yen	*Millions of U.S. Dollars*
Due within one year	¥1,018	$ 8
Due after one year	1,878	16
	¥2,897	$24

The total lease expenses for the year ended March 31, 1999, was ¥982 million.

The depreciation expense for the year ended March 31, 1999, amounted to ¥921 million. The depreciation is calculated using the straight-line method over the life of the lease of the respective assets.

The difference between the minimum lease payments and the acquisition costs of the lease assets represents the interest expense. The allocation of such interest expense over the life of the lease is computed based on the effective interest method. The interest expense for the year ended March 31, 1999, was ¥79 million.

(b) Lessor side

	Millions of Yen			*Millions of U.S. Dollars*		
	Acquisition Cost	*Accumulated Depreciation*	*Net Book Value*	*Acquisition Cost*	*Accumulated Depreciation*	*Net Book Value*
Equipment	¥1,967,997	¥1,245,549	¥722,448	$16,325	$10,332	$5,993
Other	197,390	100,811	96,579	1,637	836	801
	¥2,165,387	¥1,346,360	¥819,027	$17,962	$11,168	$6,794

Future lease payments receivables as of March 31, 1999, including interest under such leases, were as follows:

	Millions of Yen	*Millions of U.S. Dollars*
Due within one year	¥282,446	$2,343
Due after one year	633,233	5,253
	¥915,679	$7,596

The lease income for the year ended March 31, 1999, was ¥342,771 million.

The depreciation expense for the year ended March 31, 1999, amounted to ¥274,828 million. The depreciation is calculated using the straight-line method over the life of the lease of the respective assets without salvage values.

The difference between the minimum lease payments receivables and the acquisition costs of the lease assets represents the interest income. The allocation of such interest income over the life of the lease is computed based on the effective interest method. The interest income for the year ended March 31, 1999, was ¥68,500 million.

Operating leases at March 31, 1999, consisted of the following:

(a) Lessee side

Future minimum lease payments as of March 31, 1999, were as follows:

	Millions of Yen	*Millions of U.S. Dollars*
Due within one year	¥10,340	$ 86
Due after one year	61,537	510
	¥71,878	$596

(b) Lessor side

Future lease payments receivables as of March 31, 1999, were as follows:

	Millions of Yen	*Millions of U.S. Dollars*
Due within one year	¥ 200	$82
Due after one year	3,881	32
	¥4,081	$34

25. Segment Information

(a) Business segment information

Year ended March 31, 1999	*Banking Business*	*Leasing*	*Other Businesses*	*Total*	*Eliminations*	*Consolidated*
	Millions of Yen					
I. Adjusted operating income						
(1) External customers	¥ 1,928,162	¥ 485,485	¥ 264,273	¥ 2,677,921	¥ —	¥ 2,677,921
(2) Intersegment	118,947	14,327	107,339	240,614	[240,614]	—
Total	¥ 2,047,110	¥ 499,812	¥ 371,612	¥ 2,918,536	¥ [240,614]	¥ 2,677,921
Adjusted operating expenses	2,800,845	483,826	484,590	3,769,261	[214,019]	3,555,242
Adjusted operating profit (loss)	(753,734)	15,986	(112,977)	(850,725)	[26,595]	(877,321)
II. Assets	¥52,897,384	¥1,438,027	¥5,276,695	¥59,612,107	¥[4,638,235]	¥54,973,872
Depreciation	17,366	280,444	2,009	299,820	—	299,820
Capital expenditure	31,490	303,134	8,152	342,777	—	342,777

The Bank and some of the consolidated subsidiaries are engaged in securities, trust, leasing and other businesses, in addition to the banking business. As these activities have not been deemed material, the business segment information was not disclosed for the year ended March 31, 1998.

Year ended March 31, 1999	*Banking Business*	*Leasing*	*Other Businesses*	*Total*	*Eliminations*	*Consolidated*
	Millions of U.S. Dollars					
I. Adjusted operating income						
(1) External customers	$ 15,994	$ 4,027	$ 2,193	$ 22,214	$ —	$ 22,214
(2) Intersegment	987	119	890	1,996	[1,996]	—
Total	$ 16,981	$ 4,146	$ 3,083	$ 24,210	$ [1,996]	$ 22,214
Adjusted operating expenses	23,234	4,013	4,020	31,267	[1,775]	29,492
Adjusted operating profit (loss)	(6,253)	133	(937)	(7,057)	[221]	(7,278)
II. Assets	$438,800	$11,929	$43,772	$494,501	$[38,476]	$456,025
Depreciation	144	2,326	17	2,487	—	2,487
Capital expenditure	261	2,514	68	2,843	—	2,843

Notes: 1. The above tables show business segment information on adjusted operating income, adjusted operating profit (loss) and assets of the Bank and consolidated subsidiaries, respectively.

2. The business segmentation is decided based on the Bank's internal administrative purpose. The primary businesses of each segments are as follows:
(1) Banking business – Banking business
(2) Leasing – Leasing
(3) Other businesses – Securities, trusts, non-bank business and credit card business

3. Adjusted operating income represents total income excluding "Gains on dispositions of premises and equipment," "Recoveries of written-off claims," "Gains on sales of majority interest of subsidiaries" and reversals from "Other reserves."
Adjusted operating expenses represents total expenses excluding "Losses on dispositions of premises and equipment" and other extraordinary expenses.

4. The Bank changed the method of accounting for depreciation referred to in Note 2 (f) for the year ended March 31, 1999. The effect of this change decreased adjusted operating loss on banking business by ¥3,979 million and on other businesses by ¥3 million for the year ended March 31, 1999.

(b) Geographic segment information

Year ended March 31, 1999	Millions of Yen						
	Japan	*The Americas*	*Europe*	*Asia and Oceania*	*Total*	*Eliminations*	*Consolidated*
I. Adjusted operating income							
(1) External customers	¥ 1,935,665	¥ 275,513	¥ 283,885	¥ 182,856	¥ 2,677,921	¥ —	¥ 2,677,921
(2) Intersegment	222,218	63,646	185,815	35,784	507,464	[507,464]	—
Total	¥ 2,157,884	¥ 339,159	¥ 469,701	¥ 218,640	¥ 3,185,385	¥ [507,464]	¥ 2,677,921
Adjusted operating expenses	2,969,212	330,531	477,805	254,077	4,031,626	[476,383]	3,555,242
Adjusted operating profit (loss)	(811,327)	8,627	(8,104)	(35,436)	(846,240)	[31,080]	(877,321)
II. Assets	¥50,019,620	¥4,653,637	¥1,850,022	¥3,778,091	¥60,301,370	¥[5,327,498]	¥54,973,872

Year ended March 31, 1998	Millions of Yen						
	Japan	*The Americas*	*Europe*	*Asia and Oceania*	*Total*	*Eliminations*	*Consolidated*
I. Adjusted operating income							
(1) External customers	¥ 1,516,501	¥ 365,358	¥ 419,498	¥ 277,526	¥ 2,578,884	¥ —	¥ 2,578,884
(2) Intersegment	206,697	144,952	112,295	33,754	497,700	[497,700]	—
Total	¥ 1,723,198	¥ 510,311	¥ 531,794	¥ 311,280	¥ 3,076,494	¥ [497,700]	¥ 2,578,884
Adjusted operating expenses	2,275,628	446,813	510,578	303,810	3,536,829	[455,347]	3,081,482
Adjusted operating profit (loss)	(552,429)	63,497	21,216	7,470	(460,244)	[42,353]	(502,598)
II. Assets	¥49,966,612	¥6,058,796	¥6,340,813	¥5,573,761	¥67,939,984	¥[3,570,440]	¥64,369,544

Year ended March 31, 1999	Millions of U.S. Dollars						
	Japan	*The Americas*	*Europe*	*Asia and Oceania*	*Total*	*Eliminations*	*Consolidated*
I. Adjusted operating income							
(1) External customers	$ 16,057	$ 2,285	$ 2,355	$ 1,517	$ 22,214	$ —	$ 22,214
(2) Intersegment	1,844	528	1,541	297	4,210	[4,210]	—
Total	$ 17,900	$ 2,813	$ 3,896	$ 1,814	$ 26,424	$ [4,210]	$ 22,214
Adjusted operating expenses	24,631	2,742	3,964	2,108	33,444	[3,952]	29,492
Adjusted operating profit (loss)	(6,729)	71	(68)	(294)	(7,020)	[258]	(7,278)
II. Assets	$414,928	$38,604	$15,347	$31,340	$500,219	$[44,194]	$456,025

Notes: 1. The above tables show geographic segment information on adjusted operating income, adjusted operating profit (loss) and assets of the Bank's head office, branches and consolidated subsidiaries, respectively. Adjusted operating income, adjusted operating profit (loss) and assets are divided into Japan and other areas according to the country of domicile of respective entities.

2. The geographic segmentation is decided based on the degrees of the following factors: geographic proximity, similarity of economic activities and relationship of business activities among regions.

In the above tables, the Americas includes the United States, Brazil and others; Europe includes the United Kingdom, France and others; and Asia and Oceania includes Hong Kong, Singapore and others except Japan.

3. Adjusted operating income represents total income excluding "Gains on dispositions of premises and equipment," "Recoveries of written-off claims," "Gains on sales of majority interest of subsidiaries" and reversals from "Other reserves."

Adjusted operating expenses represents total expenses excluding "Losses on dispositions of premises and equipment" and other extraordinary expenses.

4. The Bank changed the method of accounting for depreciation referred to in Note 2(f) for the year ended March 31, 1999. The effect of change was a decrease in adjusted operating loss in Japan by ¥3,982 million for the year ended March 31, 1999.

5. The Bank has changed the method of accounting for securities referred to in Note 2(d) for the year ended March 31, 1998. The effect of the change was a decrease in adjusted operating loss mainly in Japan by ¥240,763 million for the year ended March 31, 1998.

6. Prior to April 1, 1998, enterprise tax expense has been included in adjusted operating expenses, and effective April 1, 1999, it was excluded from adjusted operating expenses, as referred to in Note 22.

(c) Adjusted operating income from international operations

	Millions of Yen		
	Adjusted Operating Income from International Operations (A)	Consolidated Adjusted Operating Income (B)	(A)/(B)
Year ended March 31, 1999	¥ 982,029	¥2,677,921	36.7%
Year ended March 31, 1998	1,364,584	2,578,793	52.9

	Millions of U.S. Dollars		
	Adjusted Operating Income from International Operations (A)	Consolidated Adjusted Operating Income (B)	(A)/(B)
Year ended March 31, 1999	$8,146	$22,214	36.7%

Note: The above table shows adjusted operating income from international operations such as foreign currency transactions in Japan, transactions of the Bank's overseas branches and transactions of overseas consolidated subsidiaries, excluding internal income between consolidated subsidiaries.

26. Subsequent Events

Appropriations of retained earnings

The following appropriations of retained earnings of the Bank at March 31, 1999, were approved by the ordinary meeting of shareholders held on June 29, 1999.

	Millions of Yen	Millions of U.S. Dollars
Cash dividends, ¥3.00 per share on common stocks	¥9,423	$78
¥0.03 per share on preferred stocks (first series)	2	0
¥0.08 per share on preferred stocks (second series)	8	0

27. Parent Company

Financial information of the Sumitomo Bank, Limited, the parent company, is presented below:

Balance sheets

The Sumitomo Bank, Limited March 31, 1999 and 1998	*Millions of Yen* 1999	 1998	*Millions of U.S. Dollars* 1999
Assets:			
Cash and due from banks	¥ 822,529	¥ 1,400,335	$ 6,823
Deposits with banks	819,961	2,574,794	6,802
Call loans	491,952	1,095,318	4,081
Commercial paper and other debt purchased	101,741	168,496	844
Trading assets	2,004,010	1,921,575	16,624
Money held in trust	84,481	215,554	700
Securities	6,679,892	7,256,931	55,412
Loans and bills discounted	33,716,858	35,930,302	279,692
Foreign exchange	374,151	575,784	3,103
Other assets	1,993,150	2,375,450	16,534
Premises and equipment	598,148	700,691	4,962
Deferred tax assets	719,913	—	5,972
Customers' liabilities for acceptances and guarantees	3,124,504	3,861,559	25,919
Total assets	¥51,531,297	¥58,076,795	$427,468
Liabilities:			
Deposits	¥33,001,309	¥37,390,044	$273,756
Call money	3,351,490	4,802,954	27,802
Commercial paper	215,500	—	1,787
Trading liabilities	867,950	642,450	7,200
Borrowed money	2,506,236	3,049,440	20,790
Foreign exchange	155,493	83,803	1,290
Bonds	148,068	113,000	1,228
Convertible bonds	101,106	101,106	839
Other liabilities	4,856,861	5,131,721	40,289
Reserve for possible loan losses	1,052,958	1,257,212	8,734
Reserve for retirement allowances	49,524	49,983	411
Reserve for loss on loans sold	134,753	80,964	1,118
Other reserves	9	9	0
Deferred tax liabilites for revaluation reserve for land	119,060	—	988
Acceptances and guarantees	3,124,504	3,861,559	25,919
Revaluation reserve for land	—	374,531	—
Total liabilities	¥49,684,827	¥56,938,781	$412,151
Shareholders' equity:			
Preferred stock, no par value, authorized 500,000 thousand shares and issued 167,000 thousand shares in 1999	¥ 250,500	¥ —	$ 2,078
Common stock, par value ¥50 per share, authorized 7,500,000 thousand shares and issued 3,141,062 thousand shares in 1999 and 1998	502,348	502,348	4,167
Capital surplus	643,080	392,580	5,334
Legal reserve	99,179	94,595	823
Revaluation reserve for land, net of tax	164,551	—	1,365
Retained earnings	186,810	148,490	1,550
Total shareholders' equity	¥ 1,846,470	¥ 1,138,014	$ 15,317
Total liabilities and shareholders' equity	¥51,531,297	¥58,076,795	$427,468

Statements of income

The Sumitomo Bank, Limited
Years ended March 31, 1999, 1998 and 1997

	Millions of Yen			*Millions of U.S. Dollars*
	1999	1998	1997	1999
INCOME:				
Interest income:				
Interest on loans and discounts	¥ 971,144	¥1,083,057	¥1,051,735	$ 8,056
Interest and dividends on securities	175,223	174,435	185,190	1,453
Other interest income	499,542	710,841	760,022	4,144
Fees and commissions	104,338	106,868	101,587	866
Trading profits	37,156	18,433	—	308
Other operating income	115,264	66,021	79,383	956
Other income	170,659	254,419	183,635	1,416
TOTAL INCOME	2,073,328	2,414,077	2,361,555	17,199
EXPENSES:				
Interest expenses:				
Interest on deposits	506,237	812,818	786,410	4,200
Interest on borrowings and rediscounts	121,920	123,300	125,833	1,011
Other interest expenses	414,857	446,470	489,877	3,441
Fees and commissions	43,159	38,007	35,753	358
Trading losses	542	3,408	—	5
Other operating expenses	69,729	28,251	32,158	578
General and administrative expenses	366,369	387,623	378,269	3,039
Transfer to reserve for possible loan losses	566,279	829,464	93,463	4,697
Other expenses	617,656	328,697	375,630	5,124
TOTAL EXPENSES	2,706,752	2,998,041	2,317,397	22,453
Income (loss) before income taxes	(633,423)	(583,963)	44,157	(5,254)
Income taxes:				
Current	20,812	37,731	8,839	173
Deferred	(280,112)	—	—	(2,324)
NET INCOME (LOSS)	¥ (374,123)	¥ (621,695)	¥ 35,318	$ (3,103)

	Yen			*U.S. Dollars*
	1999	1998	1997	1999
PER SHARE DATA:				
Net income (loss)	¥(119.11)	¥(197.93)	¥11.24	$(0.99)
Diluted net income	—	—	11.17	—
Declared dividend on common stock	6.00	8.50	8.50	0.05
Declared dividend on preferred stocks (first series)	0.03	—	—	0.00
Declared dividend on preferred stocks (second series)	0.08	—	—	0.00