

# The Year 2000 Problem

Only a few months remain until the year 2000. As the clock ticks and we move closer to this threshold date, the sense of concern about the ramifications and impact of the so-called Year 2000 Problem (the “Y2K Problem”) is heightening globally. The Bank is fully aware of and acknowledges the seriousness of the Y2K Problem and the threat that it poses to computers and those who use them.

The Y2K Problem refers to the possible failure of computer systems that recognize “years” by using the last two digits of the Western calendar year to maintain precise and accurate operations before, during and after the year 2000. This is due to the inability of such systems to make the distinction between the years 1900 and 2000. It also refers to the possibility that computers may not cope with certain leap year problems.

The Y2K Problem poses a serious challenge to the banking industry, as failure to address this matter may disrupt banking operations, such as settlement and interest computation. Furthermore, banks may also be affected both directly and indirectly by the noncompliance with Y2K issues of their clients and of their clients’ business counterparts.

## The Bank’s Response

Reflecting the Bank’s appreciation of the gravity of this problem and its determination to effectively deal with it, in August 1998 the Bank established its “Year 2000 Committee,” expanding the existing interdisciplinary working team. Senior management directs and supervises matters relating to the remediation of the Y2K Problem through this structure. Complementing this direct supervision, the Bank’s major subsidiaries and affiliates also provide monthly status reports to the committee.

## Progress to Date

Investigations and corrective programs have been implemented and are being implemented to achieve the Bank’s targets for the completion of remediation measures. In addition to all proprietary systems (“Systems”) that have been examined, modified/corrected, subjected to internal tests, excluding external point-to-point testing, and validated without problem, the Bank treats as Y2K compliant all externally developed systems whose vendors have confirmed their Y2K compliance/preparedness and that have passed all of the Bank’s validation tests.

Based on this criterion, as of March 31, 1999, 93% of all Systems were Y2K compliant. Furthermore, of all mission-critical systems, including accounting, management information systems (MIS) and electronic banking systems, 95% were compliant as of the same date.

With respect to software (groupware and network operating systems, etc.) developed and purchased from third parties who have yet to complete Y2K remediation measures, as well as the new dealing support system for securities and yen money market instruments the Bank is planning to introduce, the Bank continues to pursue compliance program targets. In addition, the Bank is currently emphasizing external point-to-point tests with customers and other financial institutions for external payment and settlement systems. All Y2K measures are scheduled to be completed by the end of June 1999. To further reinforce the Bank’s preparedness, additional validation tests will be conducted during 1999.

## Facilities

The Bank has surveyed all vendors of externally developed, fabricated and manufactured facilities, such as vaults, elevators, telephone switching equipment and security doors, as well as power and water supply systems, about the Y2K compliance of such facilities. At the end of March 1999, some 99% of the Bank’s business facilities were confirmed by their vendors as being Y2K compliant. Although Y2K remediation measures by some vendors remain outstanding at this time, the Bank has continued to confirm Y2K compliance and prompt remedial action with such vendors, with a deadline of the end of June 1999 for Y2K compliance.

## **Remediation and Investment Costs**

The total cost of achieving Y2K compliance, including the upgrading and testing of systems, the related manpower, the production of the contingency plan and the incidental expenses related to earlier upgradings of key systems, is estimated at roughly ¥33 billion. This amount includes approximately ¥6.5 billion that will be allocated to upgrades and other measures from fiscal year 1999. The aggregate remediation costs are not seen as having a significant impact on the Bank's performance or its cash flow.

## **Contingency Plans**

Recognizing the potential impact on the Bank of the Y2K efforts of not only power supply, telecommunications and transport organizations, but also of customers and their counterparts, the Bank has conducted a number of surveys covering this matter with its customers and counterparts. In addition to point-to-point tests with users of the Bank's electronic banking services, other measures will continue to be implemented.

As a further measure to strengthen the Bank's readiness for possible problems, the Bank prepared a basic policy and framework of contingency plans for the "worst case scenario" last year. Currently, the Bank is engaged in completing specific and detailed plans for each type of business risk in conjunction with an external consultancy company, and all plans are expected to be in place by the end of June 1999.

For the latest information on the Y2K Problem, please refer to our postings on the Internet (<http://www.sumitomobank.co.jp/eng/sumitomo/millennium.html>).