

Major Questions and Answers about
The Financial Results of First Half of Fiscal 2001

1. Performance overview (P/L)

Q. What are the major factors contributing to the large increase in Banking Profit compared to the former forecast?

- A. The major factors contributing to the large increase in Banking Profit are as follows:
- The treasury unit (especially ALM operation) marked a large increase in profit.
 - The dividends from both domestic and overseas subsidiaries increased.
 - Expenses decreased by 23.5 billion yen more than the former forecast.

Q. How is the progress of rationalization?

- A. SMBC reduced the headcount by 340 from March 31, 2001, and as a result, the headcount as of September 30, 2001, had dropped to 26,802 even with the April addition of 630 newly hired graduates.

The number of domestic branches stood at 577 branches, a decrease of 1 branch from March 31, 2001. By accelerating the elimination and integration of the domestic branch network from the 2nd half of fiscal 2001, we plan to reduce the number of branches to 564 by March 31, 2002.

Meanwhile, we completed the elimination of 12 overseas branches through consolidation with geographically overlapping branches. The number of overseas branches stood at 21 branches, a decrease of 12 branches from March 31, 2001.

Q. What are the reasons for the increase in credit cost compared to former forecast?

- A. The increase is partly due to the sluggish business environment. Under the prolonged stagnant economy, there was no positive sign of the recovery of borrowers' financial conditions and the value of real estate collateral has been continuously declining. In addition to these external factors, there is an increase in credit cost attributed to SMBC's further action to resolve the asset quality problem. This action is as follows; (i) acceleration of workout of non-performing assets, and (ii) increase in credit cost as a result of the introduction of more stringent classification standards for self-assessment, especially for that of Substandard Assets.

2. Performance overview (B/S)

Q. What is the reason for the decrease in Loans and Bills Discounted?

- A. The balance of Loans and Bills Discounted as of the end of September 2001 decreased by ¥676.2 billion from the end of March 2001.

This is mainly due to the weak demand of corporations for funds, while SMBC has been actively trying to increase loans focusing on creditworthy small and medium-sized corporations and individuals, including housing loans.

Q. What is the reason for the large decrease in Deposits?

A. The balance of Deposits as of the end of September 2001 decreased by ¥2,430 billion from the end of March 2001.

This is mainly due to a decrease in funding in overseas money markets. In the domestic operation, on the other hand, Deposits increased by ¥600 billion for the same period of time and 70% of this increase is attributed to the increase in the balance of individual depositors.

3. Asset quality

Q. What are the reasons why the problem assets based on the Financial Reconstruction Law have increased?

A. The problem assets based on the Financial Reconstruction Law have increased by 504.4 billion yen for the 1st half of 2001, compared to those as of the end of March 2001. This is mainly because the introduction of more stringent classification standard resulted in Substandard Assets increasing by 817.8 billion yen, which exceeded the decrease in Doubtful Assets by 297.4 billion yen.

Q. How was the progress in “off-balancing” of problem assets?

A. The sum of Bankrupt and quasi-bankrupt assets and Doubtful assets at the end of first half of fiscal 2001 (Sep. 30, 2001) amounted to 2,219.7 billion yen, a 313.5 billion yen decrease from the 2,533.1 billion yen at the end of second half of fiscal 2000 (Mar. 31, 2001). The breakdown of this change is as follows:

- Removal from the balance sheet of problem assets that existed as of March 31, 2001: 696.8 billion yen
- New occurrence of problem assets during 1st half 2001: 383.3 billion yen

4. Consolidated financial results

Q. What are the major factors for the differences between the parent results and consolidated results in Operating profit and Net income?

A. In the first half of fiscal 2001, the parent operating profit exceeded consolidated operating profit by 12.7 billion yen, and parent net income exceeded consolidated net income by 45.6 billion yen.

During this first half, our consolidated subsidiaries and affiliates paid dividends to the parent bank, but since these dividend payments are internal transactions within the group, it has no effect on consolidated financial results.

Therefore, regarding the accounting treatment of these dividend payments, the profit (Banking profit) of the parent bank increased by the amount of dividends, but on the other hand, they were subtracted from the contribution of subsidiaries and affiliates (in Operating profit) by the same amount.

Mainly due to this factor, the contribution of subsidiaries and affiliates to the consolidated results ended negative in this first half.

5. Financial forecast of fiscal 2001

Q. Why does SMBC expect the large increase in Banking Profit of fiscal 2001 compared to the former forecast?

A. SMBC projects 1,050 billion yen in Banking Profit in fiscal 2001, which is 340 billion yen larger than the former projection of 710 billion yen. Of this increase in Banking Profit, 150 billion yen is already seen in the first half results. Regarding the second half, the Banking Profit is also expected to be high because the profit from ALM operations with support of the interest rate decline in overseas, the contribution of further cost reduction, and the increase of the dividends from subsidiaries and affiliates can be expected.

Q. Why does SMBC expect the annual credit cost for this fiscal year to be 1 trillion yen?

A. The following is the breakdown of this 1 trillion yen forecast.

- Approximately 350.0 billion yen to provide against potential risks arising from the deterioration of assets mainly in Borrowers requiring caution. The actions include (i) raise the reserve ratio reflecting the recent default ratio and worsening economic conditions, (ii) increase the amount of reserves to prepare for the overconcentration risk in specific industries and for the future credit cost regarding further structural changes in those industries.
- Approximately 150.0 billion yen for the costs related to acceleration of the workout of problem assets.
- Nearly 500.0 billion yen for the deterioration of the financial condition of specific borrowers and for the devaluation of collateral, etc.

We estimate that about half of this credit cost is for the preparation against potential risks which might be realized in the future.