

Major Questions and Answers:
Press conferences for the revision of earnings estimate for fiscal 2001 and
financial results for the first half of fiscal 2001

Followings are major questions and answers regarding the bank's financial results at the two press conferences below:

▪ **Press conference for the revision of earnings estimate for fiscal 2001**

Date: November 21, 2001

Place: Press Club in the Bank of Japan (Tokyo)

Announced by Yoshifumi Nishikawa, President

▪ **Press conference for financial results for the first half of fiscal 2001**

Date: November 26, 2001

Place: Press Club in the Bank of Japan (Tokyo)

Announced by Masayuki Oku, Senior Managing Director

1. Asset quality

Q. Will the estimated credit costs for fiscal 2001 include a drastic and large-scale disposition of problem assets, such as debt forgiveness? (Question on November 21)

A. Such kind of things cannot be done only by the bank. In intensive discussions with our customers, we will find a drastic solution such as business restructuring and reorganization as well as a merger with other companies. The costs to the bank in such processes are case-by-case. During the process, we will use methods such as debt equity swaps, debt forgiveness and even legal liquidations in some cases. Without the work-out of each problem assets with these methods, we will not be able to solve the asset quality problem.

Q. You said that the bank will continue to aggressively write off problem assets in the next fiscal year, but in the first half of this fiscal year, they are mainly removed from the balance sheet through mere accounting treatment, namely direct write-offs, rather than actual legal or private liquidation of borrowers. Does work-out mean removing problem assets merely from the bank's balance sheet? (Question on November 26)

- A. Problem assets could be decreased by improving borrowers' credit ratings as well as legal liquidations or debt forgiveness. We will not legally liquidate our borrowers one-sidedly without considering the relationship with them. To write off problem assets gives an impression that a bank one-sidedly abandoned its customers, but it is also very important mission for us to actively engage in our customers' corporate reorganization, so as to minimize our credit cost through improvement of their credit ratings.
- Q. How much is your estimate of the credit cost for fiscal 2002? (Question on November 26)
- A. It is difficult to estimate it at this time because of uncertainty about economic climate and land prices. We will make estimation in the next quarter. Our estimate of the credit costs for fiscal 2001 is 1 trillion yens at the present. As a result of such dispositions of problem assets, the credit costs for fiscal 2002 should decrease by a considerable amount, but I cannot tell some specific amount at this stage.

2. Bank's securities holdings

- Q. How will the bank's shareholdings impact its financial performance? (Question on November 21)
- A. There are two points. One is the devaluation and the other is the direct charge of net unrealized gains and losses to the capital. We estimate the devaluation to be around 100 billion yen including that of unlisted shares, and the direct charge to the capital of net unrealized losses to be around 350 billion yen for this fiscal year. But these numbers are based on the level of Nikkei 225 in the last month, and the actual results will of course depend largely on the share prices in next March.
- Q. Will you accelerate the disposition of the bank's shareholdings? (Question on November 21)
- A. We have been reducing the size of our equity portfolio as planned, but the speed of the reduction is not so fast due to the current market condition. But currently, it is most important to have our customers' agreement on unwinding cross-shareholdings. We are currently working very hard on it and have had a considerable progress.

- Q. Will you utilize the Bank's Shareholding Acquisition Corporation? (Question on November 21)
- A. That will be one of our options.
- Q. Could you tell us the standard of applying the impairment accounting to the bank's shareholdings? (Question on November 21)
- A. Basically, we decide whether or not to apply the impairment accounting to the shareholdings based on average share prices in the last month of a fiscal period. If the price drops by more than 50% from the historical cost, we devalue all of them except those expected to recover. If the price drops by between 30% and 50%, we devalue those shares not expected to recover.
- Q. How would you determine the probability of the share price recovery? (Question on November 21)
- A. We determine recoverability of share prices based on a quantitative method, which takes into account company's earnings trend, historical earnings, future prospects and whether or not the factors that make the share price in such level are peculiar.
- Q. How would you respond to the view that SMBC overestimates the possibility of share price recoveries compared to the other banks, based on the fact that 60 billion yen devaluation of the bank's shareholdings is small relative to 600 billion yen of net unrealized losses? (Question on November 26)
- A. First of all, at the merger, we wrote off approximately 440 billion yen of gross unrealized losses of the Sakura bank's shareholdings classified as other securities with merger accounting, which obviously decreases the amount of devaluation. On the other hand, net losses of our shareholdings at September end are mainly due to the irregularity of our stock portfolio. In other words, the share prices of blue chip companies in our portfolio, which had unrealized gains in this April, sharply dropped in this August and September. In anyway, we appropriately set the standard of the impairment accounting after thorough discussions with CPAs.

- Q. You said that SMBC have sold off 160 billion yen of its cross-shareholdings in the first half of fiscal 2001. How was that amount compared to the amount you had originally planned? Also, how much do you plan to sell off your cross-held shares in the second half of the fiscal year? (Question on November 26)
- A. We are reducing the size of our cross-shareholdings based on our internal plan, but the amount we have sold off in the first half of fiscal 2001 was smaller than the original plan. Of course, we will prepare for the introduction of the mark-to-mark accounting and regulation for the bank's shareholdings, but we do not intend to sell the cross-held shares just mechanically. We think the most important step now is to have the customers' agreement on our selling their shares as soon as possible, taking into consideration the long history of the relationship with them. After having their consent, we will start to sell the shares. As for our plan in the second half, we do not disclose the number since it might have some impact on the stock market.

3. Others

- Q. Would earnings recovery from the next fiscal year be due to the restructuring? (Question on November 21)
- A. The base of our earnings recovery comes from pursuing the merger synergy. First of all, we have acquired much larger customer base through the merger, which has had substantial effects on our business development since this April. These effects can be seen in areas such as non-interest income, and we will continue to further accelerate our efforts to leverage this strength.
- At the same time, we will establish "Business Reform Committee" and reform our business at a corporate-wide level. The biggest task of the committee is to restructure our domestic loans. In short, we will change our industry-wide business practice such as the main bank system, collateral based lending and relationship based lending, in order to construct a lending system with an appropriate risk-return profile on a loan-by-loan basis. By agreeing with our customers on the value of each loan, we will construct a win-win situation for both our customers and ourselves. We will increase our interest income by executing this.
- To achieve this task, a loan trading market is necessary. Of course we cannot promote a loan trading market only by ourselves, but will make every effort to foster it by collaborating with other banks.

- Q. What do you think of the recent argument about the re-injection of the public fund? (Question on November 21)
- A. We will maintain the BIS capital ratio of around 10.7%, even after making a sufficient amount of reserves against problem assets and considering the impact of introduction of the mark-to-market accounting, such as the direct charge to the capital of net unrealized gains and losses of the bank's shareholdings and the impairment accounting. Also, even if the stock market conditions worsen to a considerable extent, we estimate that the BIS capital ratio will not go below 10%. This reasonably convinces me that it is unnecessary to re-inject the public fund.