

Major Questions and Answers

(mainly from the investor presentation held on December 5, 2001)

Q How do you analyze the annual credit cost of 1 trillion yen, which you expect for this fiscal year, in comparison with other financial groups in Japan?

A We cannot compare it to other banks because we do not know their lending portfolio in detail.

Through various analyses, we have currently estimated the annual credit cost to be 1 trillion yen, which consists of the following factors:

i) Approximately 350 billion yen to provide for future potential risk of borrowers requiring caution, such as (a) increasing the amount of reserves to prepare for the over-concentration risk and the risk related to further structural changes in specific industries, and (b) raising the reserve ratio to reflect the recent default ratio and economic conditions.

ii) Approximately 150 billion yen to accelerate the workout of problem assets.

iii) Approximately 500 billion yen to provide reserves against deterioration in borrowers' financial condition, decline of collateral value, and credit cost regarding disposition of problem assets.

Q You said that from now on, you are going to charge the borrowers an appropriate lending margin, reflecting the risk profile of each loan. But I suppose there is tough competition among banks for lending to healthy companies. How are you going to manage through this situation?

A It will be hard to achieve our target amid the current weak loan demand and tough competition, especially for the lending to highly-graded companies. But Japanese banks will not recover from the current situation if we do not get sufficient return for the risk we are taking. This action may lead to a decrease in our loan balance, but overall, we believe that it will have positive impact on our profit.

Q Do you have any plan to increase your capital base, such as issuing preferred securities?

A Capital planning of the bank is always in our mind. But currently, we have no plan to issue preferred securities right away, since our BIS ratio is expected to remain at a sufficient level of around 10.7% as of March 31 (the end of the current fiscal year).

Q How is the progress on overseas restructuring?

A Restructuring of overseas offices has gone well since the announcement of the merger. Integration of redundant branches is almost finished, accompanied by the reduction of the overseas headcount. Furthermore, the mainframe system of our overseas operation was already unified at the time of the merger, April 1, 2001.

Q How will SMBC control its assets and liabilities after the introduction of the "pay-off," by which the inflow of retail deposits from other financial institutions is expected to increase?

A For this fiscal year, we forecast that the liquid deposits will increase rather than time deposits. The increase of the deposits will benefit us in improving the position of our funding from money markets.

Q What was the duration of the JGB portfolio as of September 30, 2001?

A The total duration of the JGB portfolio as of September 30, 2001 was 2.7 years. Due to a large decrease in the amount of treasury bills and finance bills, the duration was somewhat longer than that of March 31, 2001. However, if we define duration as that of the medium- and long-term JGB portfolio, it has been shortened.

Q Don't you think that the reduction of stockholdings by 1.5 trillion yen within the coming 3 years is too modest and slow?

A We think that the reduction of the stock market fluctuation risk is one of the most important management issues. So we never think of reducing our stockholdings at a slow pace. We are rather aiming to accelerate selling our stockholdings. In order to do this, we have been negotiating with customers with whom we have share cross-holding relationships. We believe the negotiations are proceeding pretty well. Although it depends on the market condition, we would like to reduce that amount within the coming 2 years rather than 3 years.

Q As for reexamination of corporate lending practices, is it possible to renegotiate terms of transactions with companies in the Sumitomo and Mitsui groups, which seem to be "relationship-oriented"?

A The relation between banks and corporations has substantially changed over the past 10 years. Even if we act as the lead bank to group companies and other corporations, these companies have come to select SMBC only when we have high-quality financial products

and services that meet their demands. Accordingly, we should reexamine our corporate loan business based on relationships with customers, and change it to a product-oriented one. A customer relationship should be grounded on the business developed through this product-based approach.