

Major Questions and Answers
(from the Financial Results Presentation held on June 3, 2003
and others)

1. Financial Results for FY2002

Q. Please explain SMBC's performance of non-interest income business.

A. Non-interest income (fees and commissions, and income from sales of derivatives, etc.) increased by JPY 80.6 billion year-over-year to JPY 351.6 billion, due to growth in sales of derivatives and investment trusts and loan syndication, etc. Non-interest income accounted for 20.0% of gross banking profit, which is an increase of 5.4% year over year.

Q. What are the factors behind the increase in profit of the Treasury Unit?

A. Gross banking profit of the Treasury Unit increased by JPY 73.8 billion year-over-year. The main reason was the increase in profit of banking account due to the following factors: performance in yen banking account (ALM operations) was favorable, and operation in foreign currency banking account (ALM operations) worked effectively utilizing the decline of US interest rates.

Q. What is the portion of problem assets and credit cost related to loans to small and medium-sized enterprises?

A. Loans to small and medium-sized enterprises ("SMEs") accounted for approximately 70% of total loans, and loans to SMEs accounted for approximately 70% of problem assets and credit cost also. In FY2002, they accounted for 60 to 70% of the decrease in problem assets and of total credit cost, respectively. SMBC manage them properly following the rules such as "2 year-3 year rule" and "50%-80% rule". When loans to SMEs deteriorate, SMBC manages them in the same manner as such loans to large corporations.

Q. The outstanding balance of JGB is large. Aren't you taking excessive risk?

A. The outstanding balance of JGB as of March 31, 2003 was approximately JPY 12 trillion, which is an increase of JPY 2.7 trillion year over year. However, we believe that the JGB portfolio's risk is controllable because, (a) JGB has high liquidity, (b) many of the JGBs are of short term and the duration is 3.5 years, which is not so long, and (c) net unrealized gains totaled approximately JPY 110 billion at the term-end. SMBC regularly reviews and determines its ALM operation policy, taking market conditions and macro economic environment into consideration, and the section in charge of daily operation follows internal rules and authorization. Regarding market risk, SMBC establishes and controls risk exposure limits (VaR guidelines and position limits) and evaluation loss limits (evaluation loss guidelines). The Corporate Risk Management Department, which is independent of the Treasury Unit, monitors the risk exposure and evaluation gains (losses) daily. When the market risk rises, it takes countermeasures based on the internal rules. SMBC has a system which allows it to respond quickly to risk fluctuation.

Q. Can you reduce stockholdings to the level required in the restrictions on bank shareholdings* which will become effective on Sep. 30, 2004?

A. In FY2002, we reduced stockholdings by more than JPY 2 trillion by measures as follows: selling approximately JPY 1.1 trillion including sales to the Bank of Japan, writing off approximately JPY 700 billion of net unrealized losses on securities utilizing the merger surplus from the SMBC-Wakashio Bank merger, and exercising the impairment of approximately JPY 500 billion. As a result, we achieved the required target, both on SMFG consolidated basis and SMBC consolidated basis, at March 31, 2003.

(*) Banks and their subsidiaries are restricted to hold stocks in excess of the amount of Tier 1 capital.

Q. What is your view on deferred tax assets?

A. We have always strictly examined the availability of deferred tax assets, and in FY2002, we recognized deferred tax assets based on a more conservative accounting standards on earnings estimates, etc., in accordance with the Program for Financial Revival announced by the Financial Service Agency in October 2002 and the policy guideline issued by the Japanese Institute of Credit Certified Public Accountants in February 2003. As a result, we wrote off deferred tax assets by JPY 454.7 billion on March 31, 2003, and after a strict evaluation by the CPAs, deferred tax assets, which will be certainly collected in the future, totaled JPY 1,814.6 billion on SMBC non-consolidated basis and JPY 1,912.2 billion on SMFG consolidated basis.

2. Earnings Forecast for FY2003

Q. What are your projections and breakdown of credit cost for FY2003?

A. JPY 650 billion in credit cost is expected for FY2003. The cost related to "off-balancing" of problem assets is estimated to be JPY 250 billion regarding a reduction of problem assets by approximately JPY 1.4 trillion (JPY 5,261.3 billion at the end of FY2002 to JPY 3,900 billion at the end of FY2003). Though the cost related to "off-balancing" in FY2002 was JPY 300 billion, it is expected to decrease in FY2003 because loans to Potentially Bankrupt Borrowers and lower decreased in FY2002 (JPY 3,480.5 billion at the end of FY2001 to JPY 2,654.4 billion at the end of FY2002).

Although the cost related to deterioration of financial condition of Borrowers is expected to decrease due to the progress in writing off loans to large borrowers and enhancement of the level of reserves, it is estimated to be JPY 300 billion, which is the same level as the previous year, taking the provisions to accelerate revitalization of Substandard Borrowers into consideration. Furthermore, JPY 100 billion in provision for continuous deflation and enhancement of reserves for accelerating disposition of such problem assets is estimated. Accordingly, cost related to deterioration of financial condition of Borrowers is estimated to be JPY 400 billion in total.

Q. What is your strategy on the improvement of loan spreads?

A. In FY2003, approximately JPY 20 trillion in loans managed by the Middle Market Banking Unit is targeted for loan spread improvement by 16bp, a total improvement of 40bp for 2 consecutive years from FY2002.

Q. What is your plan to expand better risk-return loan products business?

A. In addition to further expanding Business Select Loan to small enterprises, credit approval methods will be standardized and simplified and new loan products with better risk-return profile will be expanded for middle level corporations. Initiation of such loan products is expected to be JPY 2.3 trillion, which is a JPY 1 trillion increase compared with last fiscal year.

Q. What is your estimation of BIS capital ratio as of March 31, 2004?

A. We expect BIS capital ratio as of March 31, 2004 to be about the same as it was at the end of FY2002. We intend to keep risk-adjusted assets at the previous term's level by increasing assets with high profitability, such as housing loans and loans to small and medium-sized enterprises, and by selling cross-held shares and disposing of problem assets on the other hand.

Q. What is your policy on Mitsui Life?

A. Our policy on Mitsui Life is that the company should and can improve its market evaluation through its own initiatives. Mitsui Life has announced plans, including the plan to demutualize and go public, and we will support it as much as possible so that it can accomplish its plans. We will consider taking our stake in the company after receiving its official request with concrete plans, and thoroughly examining the economic rationality of the investment.