

Major Questions and Answers  
(from the Financial Results Presentation held on December 2, 2003  
and others)

1. SMBC Financial Results

Q. Please explain your policy on increasing the loan balance and improving the loan spread in the 2<sup>nd</sup> half of FY2003.

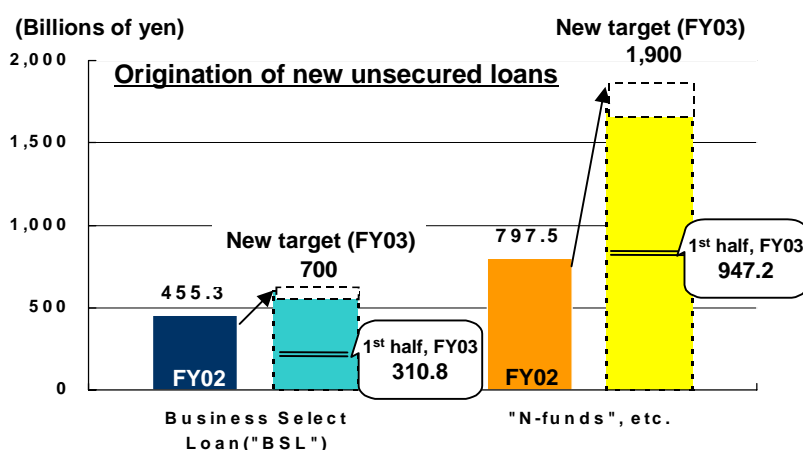
A. Regarding the loan balance, we will continue to reduce problem assets as we did in the 1<sup>st</sup> half, and we do not expect a significant improvement in corporate clients' loan demand during the 2<sup>nd</sup> half either. However, we aim to increase the total loan balance in the 2<sup>nd</sup> half mainly by proactively originating new risk-taking loan products focusing on small and medium-sized enterprises ("SMEs") and home mortgages to individuals. As for the loan spread, we aim to boost the spread for the Middle Market Banking Unit by approximately 10 bp in FY2003 by originating the new risk-taking loan products to SMEs with relatively higher spreads as well as negotiating with existing borrowers to increase the spread.

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Q. As for the favorably increasing the new unsecured loans to SMEs, what is the balance as of September 30, 2003 and the target amount of origination for FY2003?

A. The balance of the new unsecured loans to SMEs as of September 30, 2003 was approximately JPY 1.6 trillion including approximately JPY 500 billion in Business Select Loans ("BSLs") to SMEs with annual sales of less than JPY 1 billion, and approximately JPY 1.1 trillion in other new unsecured loans including "N funds" with a "check-list type approval system" or "standard judgment type approval system".

Our target for FY2003 is to originate JPY 2.6 trillion in new unsecured loans, an increase of JPY 0.3 trillion from the original plan of JPY 2.3 trillion.



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Q. Please explain the difference between "N funds" and "BSLs".

A. Both loans are unsecured loans with appropriate returns derived using an upgraded credit risk control method and characterized by "unsecured", "no guarantee by third party" and "speedy credit approval".

While the credit approval systems for N funds are of the simplified or standardized

type based on the loan portfolio management approach, the credit risk management method for BSL uses the diversified loan portfolio method. The portfolio consists of loans to qualified SMEs with annual sales of less than JPY 1 billion, and the maximum amount is JPY 50 million. Moreover, BSL is a product with its own promotion activities and a unique integrated process covering all aspects of credit origination from credit approval and to credit monitoring.

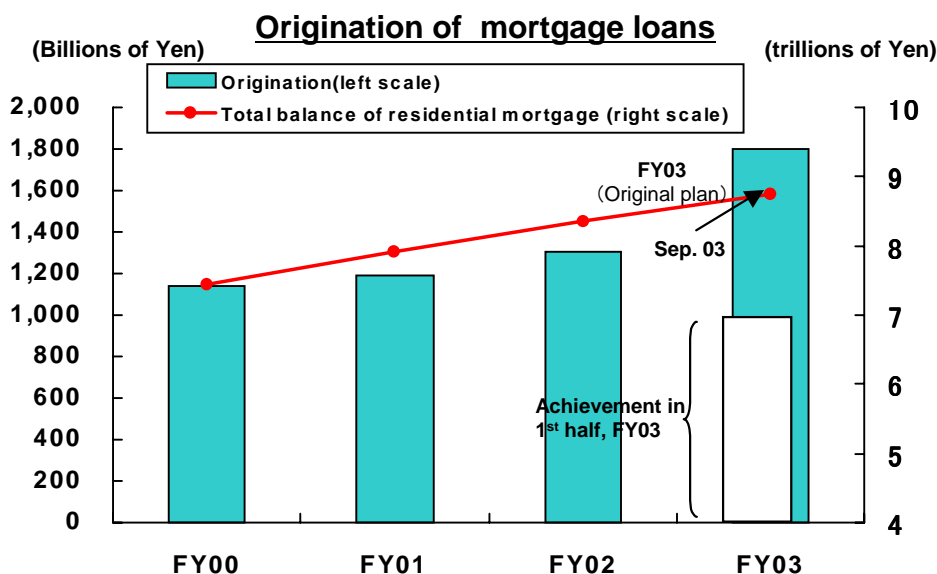
[P.50-52 of "Financial Results in 1<sup>st</sup> Half, FY2003 & Management Policy and Strategies"]

Q. Please explain the profitability of BSL.

A. BSL's average loan spread is more than 3%, based on the borrower's risk-return profile derived using our unique credit scoring model for SMEs. Additionally, various measures to keep down costs have been taken to assure profitability. An efficient promotion system, which utilizes corporate promotion offices (call centers), and an integrated process extending from automated credit approval to monitoring claims and disposing delinquent loans have been established, and the overall default ratio is kept within the expected level by quickly revising credit approval criteria according to the results of portfolio analyses, etc.

Q. Mortgage loan origination is favorable. Please give the result for the 1<sup>st</sup> half and the projection for the full term.

A. It was approximately JPY 960 billion in the 1<sup>st</sup> half due to the large increase in new loans at the "Loan Plazas", the specialized office network for mortgage loans, and favorable demand for refinancing, mainly by long-term fixed interest loans. By expanding the number of Loan Plazas and the full-scale use of the automated approval system in the 2<sup>nd</sup> half, we aim to achieve approximately JPY 1.8 trillion in origination for the full term.



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Q. What is your strategy on expanding delivery channel?

A. We are planning to change the strategy on office network drastically, from streamlining to expansion. For example, in order to expand SME business, we will establish 40 offices for SME business in the 2<sup>nd</sup> half, including five corporate

business offices in areas where there are many SMEs with no SMBC accounts, and in areas where a sufficient number of companies is expected to relocate to, and 35 small and specialized channels such as corporate sales offices, and sub-offices of business support offices in areas with a sufficient SME-market size.

Depending on their effectiveness, we plan to establish 30 more such offices in FY2004 and thereafter. On the other hand, we will establish six "SMBC Consulting Plazas", characterized by special facility for financial consulting, and expanded business hours in weekdays and open in weekends, by revising existing offices in March 2004 (plan) in Tokyo and Osaka areas to meet the customers' needs more adequately. We plan to increase the number of SMBC Consulting Plazas to 100, mainly in branches close to train terminals in the suburbs in FY2004 onward (it may also be established in new branches).

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## 2. SMBC's Asset Quality

Q. What are the reasons for the decrease of JPY 877.6 billion in substandard loans as of September 30, 2003 compared with March 31, 2003?

A. Substandard loans decreased by approximately JPY 1,180 billion on reclassification of loans to higher categories (due to improvement in borrower's financial condition) or lower categories (due to deterioration in borrower's financial condition), and increased by approximately JPY 300 billion on reclassification of loans from higher (deterioration) or lower (improvement) categories to substandard loans.

Some of the substandard loans reclassified to lower categories were loans of borrowers with a certain amount of cash-flows but are difficult to revive quickly or loans of borrowers expected to take a long time in repaying the loan. In order to reduce future risks, such borrowers were reclassified to lower categories, and plans were made for disposal of collaterals and reserve provisions were made accordingly.

[P.43 of "Financial Results in 1<sup>st</sup> Half, FY2003 & Management Policy and Strategies"]

Q. The amount of assets reclassified as doubtful assets or lower was JPY 669.8 billion in the 1<sup>st</sup> half, while off-balanced amount was JPY 1,186.9 billion. Please explain the factors for the increase. Do you expect a similar amount of asset deterioration in the 2<sup>nd</sup> half?

A. Assets deteriorated under the prolonged deflationary environment, which has not started to recover on a full-scale basis yet.

Additionally, as mentioned above, the amount of newly deteriorated assets includes the amount caused by the downgrading of the borrowers' category and by substantial restructuring of substandard loans with the view of reducing future risks.

We expect the amount of newly deteriorated assets to decrease in the 2<sup>nd</sup> half.

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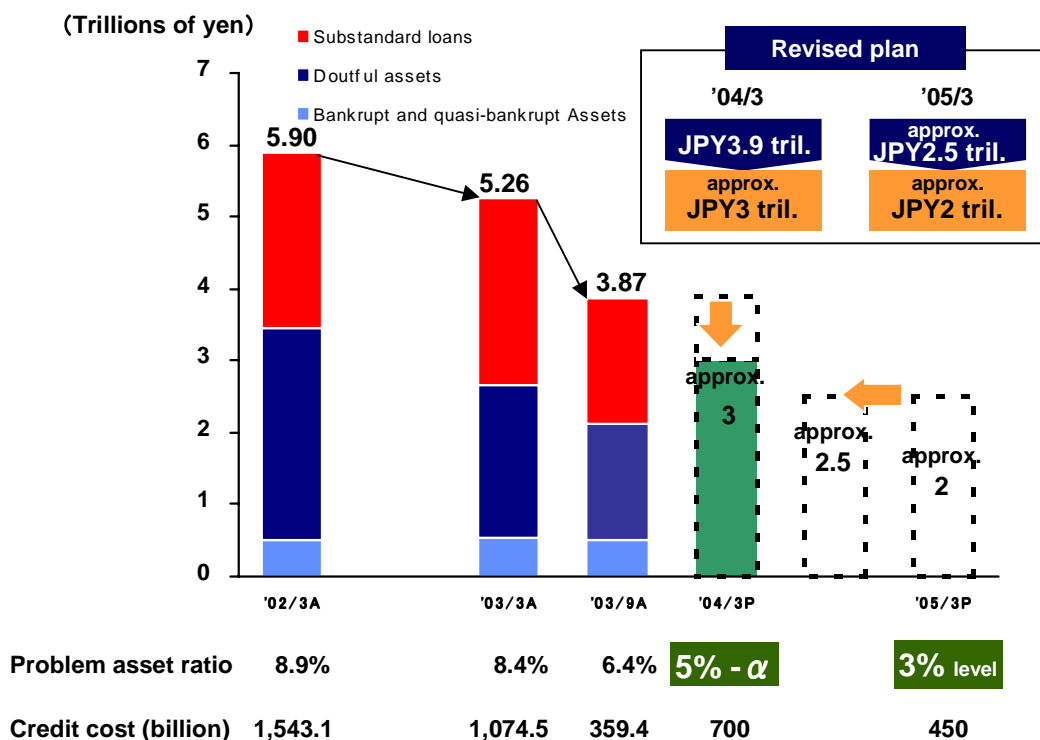
Q. Please explain your forecast for the amount of problem assets to be reduced compared to the 1<sup>st</sup> half and credit cost hereafter?

A. We plan to reduce the total amount of Problem assets based on the Financial Reconstruction Law and the Problem asset ratio to approximately JPY 3 trillion and

less than 5%, respectively, by March 31, 2004, and to approximately JPY 2 trillion and to the 3% level by March 31, 2005.

Given the 1<sup>st</sup> half result, we expect credit cost to total JPY 700 billion in FY2003. Our projected total credit cost for FY2004 is approximately JPY 450 billion as we stated in the Plan for Strengthening the Financial Base.

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Q. What is the plan for the sales of problem assets to the loan purchase fund and credit cost related to the sales?

A. The planned sales amount of problem assets to Japan Endeavor Fund, established by Goldman Sachs (Japan) Ltd., Daiwa Securities SMBC Principal Investments Co. Ltd., Development Bank of Japan and SMBC, is JPY 1 trillion as principal amount basis, mainly in Substandard loans. Sales of problem assets to Japan Endeavor Fund will become full scale in FY2004 and it will take more than a year to reach this level. We expect credit cost to total JPY 450 billion in FY2004 and believe this amount will be enough to also cover the credit cost related to the sales of problem assets to this fund.

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