

## Asset Quality

SMBC provides information about the status of its assets in three different ways. First, we conduct self-assessment to calculate appropriate write-offs and reserves by classifying borrowers according to their financial soundness. Second, disclosure based on “The Law Concerning Measures for the Reconstruction of the Functions of the Financial System” (the Financial Reconstruction Law) is used to classify problem assets. (Note: Disclosure on the basis of the Financial Reconstruction Law is related to self-assessment in terms of borrower category.) Third, we disclose the value of Risk-Monitored Loans based on the Banking Law, which excludes non-loan assets such as foreign exchange, accrued interest and advance payments.

### Disposal of Problem Assets for the First Half of Fiscal 2001

SMBC makes appropriate write-offs and reserves based on semi-annual self-assessments conducted in compliance with the financial inspection manual prepared by the Financial Services Agency and the guidelines published by the Japanese Institute of Certified Public Accountants.

SMBC adopted an aggressive program with regard to the disposal of problem assets in accordance with the government’s Emergency Economic Package, which urges banks to rapidly remove such assets from the balance sheet. This program addresses two external factors: the lack of any improvement in the financial condition of corporate borrowers and the ongoing decline in the collateral value of real estate amidst the prolonged economic slump.

As a result, on a nonconsolidated basis, total credit cost amounted to ¥305.4 billion in the first half of fiscal 2001, including the amounts transferred to the general reserve for possible loan losses. The total reserve for possible loan losses amounted to ¥1,008.9 billion at the end of the interim term.\*

On a consolidated basis, total credit cost amounted to ¥356.7 billion, including the amounts transferred to the general reserve for possible loan losses, bringing the total reserve for possible loan losses to ¥1,163.5 billion.\*\*

\* All Classification IV credits are directly written off using the direct reduction method even if the credits were not classified as tax-free write-offs. The amount of direct reduction totaled ¥1,580.8 billion.

\*\*The amount of direct reduction totaled ¥2,038.5 billion.

#### □ Self-Assessment

Self-assessments are preparatory tasks prior to calculating the appropriate level of write-offs and reserves to ensure the soundness of bank assets. Each asset is assessed individually for its security. Each borrower is assigned, depending on its current condition, to one of five categories: Normal Borrowers, Borrowers Requiring Caution, Potentially Bankrupt Borrowers, Effectively Bankrupt Borrowers and Bankrupt Borrowers. The degrees of risk of default and non-collection, and the risk of asset devaluation, are then assessed on a scale of I to IV. As part of our efforts to bolster risk management throughout the Group, our consolidated subsidiaries employ basically the same standards.

Borrower Categories	
Normal Borrowers	Borrowers with good business performance and in good financial standing without identified problems
Borrowers Requiring Caution	Borrowers identified for close monitoring
Potentially Bankrupt Borrowers	Borrowers perceived to have a high risk of falling into bankruptcy
Effectively Bankrupt Borrowers	Borrowers that may not have legally or formally declared bankruptcy, but are essentially bankrupt
Bankrupt Borrowers	Borrowers that have been legally or formally declared bankrupt

Asset Classifications	
Classification I	Assets not classified into Classifications II, III or IV
Classification II	Assets perceived to have above-average risk of non-collectibility
Classification III	Assets for which final collection or asset value is very doubtful and which pose a high risk of incurring a loss
Classification IV	Assets assessed as uncollectible or worthless

### ■ Credit Cost for the First Half of Fiscal 2001 (Nonconsolidated)

(Billions of yen)

Credit cost	¥ 268.0
Write-off of loans	138.7
Transfer to specific reserve	98.4
Transfer to reserve for losses on loans sold	23.6
Losses on loans sold to CCPC	2.2
Losses on sale of delinquent loans	13.4
Transfer to loan loss reserve for specific overseas countries	(8.3)
Transfer to general reserve for possible loan losses	37.4
Total credit cost	¥ 305.4
Reserve for possible loan losses	¥1,008.9
Amount of direct reduction	¥1,580.8

### ■ Credit Cost for the First Half of Fiscal 2001 (Consolidated)

(Billions of yen)

Total credit cost	¥ 356.7
Reserve for possible loan losses	¥1,163.5
Amount of direct reduction	¥2,038.5

### ■ Reserve for Possible Loan Losses (as of September 30, 2001)

(Billions of yen)

	Nonconsolidated	Consolidated
Reserve for possible loan losses (a)	¥1,008.9	¥1,163.5
General reserve	405.2	457.4
Specific reserve	592.0	694.4
Loan loss reserve for specific overseas countries	11.7	11.7
Risk-monitored loans (b)	¥3,269.8	¥3,782.9
Reserve ratio (a) / (b)	30.9%	30.8%

### □ Write-Offs and Reserves Assessments

Under self-assessment, each borrower is evaluated and placed into a category – Normal Borrowers, Borrowers Requiring Caution, Potentially Bankrupt Borrowers, Effectively

Bankrupt Borrowers and Bankrupt Borrowers – and standard write-offs and reserves are applied to each category.

Borrower Self-Assessment Categories	Rules for Write-Offs and Reserves
Normal Borrowers	Amounts are recorded as general reserves in proportion to the expected losses over the next 12 months based on the actual bankruptcy rate in the past for each credit rating category.
Borrowers Requiring Caution	These assets are divided into groups according to the risk of default. Amounts are recorded as general reserves in proportion to the expected losses based on the actual bankruptcy rate in the past for each group. The groups are "claims to substandard borrowers" and "other." The latter group is further divided according to financial positions and the condition of the credit extended.
Potentially Bankrupt Borrowers	The Bank sets specific reserves for possible loan losses on the portion of Classification III assets (other than those expected to be collectible by collateral or guarantees, etc.), as classified according to individual borrowers.
Effectively Bankrupt/Bankrupt Borrowers	In principle, the Bank writes off the full amount of Classification IV assets (deemed to be uncollectible or of no value) that are individually calculated by borrower. In addition, specific reserves have been set aside for possible loan losses against the full amount of Classification III assets.

As part of our overall measures to strengthen risk management throughout the Group, all consolidated

subsidiaries basically use the same standards as the parent bank for write-offs and reserves.

## Disclosure of Problem Assets

### 1. Disclosed Assets under the Financial Reconstruction Law

Under the Financial Reconstruction Law, assets are assessed and classified into four categories: Bankrupt and Quasi-Bankrupt Assets, Doubtful Assets, Substandard Loans, and Normal Assets.

On a nonconsolidated basis, the total value of assets in all categories other than Normal Assets amounted to ¥3,326.9

billion as of September 30, 2001, a ¥504.4 billion increase compared with March 31, 2001. This is mainly attributable to an ¥817.8 billion increase in Substandard Loans resulting from the application of stricter assessment standards to those loans.

On a consolidated basis, the amount was ¥3,843.1 billion.

#### Disclosed Assets under the Financial Reconstruction Law (as of September 30, 2001)

(Billions of yen)

	Nonconsolidated	Compared with March 31, 2001	Consolidated
Bankrupt and quasi-bankrupt assets	¥ 574.0	¥ (15.9)	¥ 735.0
Doubtful assets	1,645.7	(297.4)	1,858.8
Substandard loans	1,107.2	817.8	1,249.3
Subtotal	3,326.9	504.4	3,843.1
Normal assets	64,039.9	(2,117.9)	65,558.2
Total	¥67,366.8	¥(1,613.5)	¥69,401.3
Amount of direct reduction	¥ 1,580.8		¥ 2,038.5

#### Classification under Self-Assessment, Disclosure of Problem Assets and Write-Offs/Reserves (Nonconsolidated) (as of September 30, 2001)

(Billions of yen)

Category of borrowers under self-assessment	Disclosed assets under the Financial Reconstruction Law	Classification under self-assessment				Reserve for possible loan losses	Reserve ratio (Note 3)
		Classification I	Classification II	Classification III	Classification IV		
Bankrupt Borrowers	Bankrupt and quasi-bankrupt assets (1) ¥574.0	Portion of claims secured by collateral or guarantees, etc. (4) ¥535.3	Fully reserved ¥38.7	Direct write-offs (Note 1)	Specific reserve ¥42.9 (Note 2)	100%	
Effectively Bankrupt Borrowers							
Potentially Bankrupt Borrowers	Doubtful assets (2) ¥1,645.7	Portion of claims secured by collateral or guarantees, etc. (5) ¥730.8	Necessary amount reserved ¥914.9		Specific reserve ¥0.5 General reserve for substandard loans ¥106.9	60.0%	
Borrowers Requiring Caution	Substandard loans (3) ¥1,107.2 (Claims to substandard borrowers)						
Normal Borrowers	Normal assets ¥64,039.9	Claims to normal borrowers			General reserve ¥405.2	15.0% (Note 4)	
						3.1%	
						4.8%	
						0.2%	
Loan loss reserve for specific overseas countries						¥11.7	
Total ¥67,366.8		Total reserve for possible loan losses				¥1,008.9	Reserve ratio (Note 5) (B) / (D) 41.9%
(A)=(1)+(2)+(3) ¥3,326.9		(C) Portion secured by collateral or guarantees, etc. (4)+(5)+(6) ¥1,657.6		(D) Unsecured portion (A)-(C) ¥1,669.3			
Coverage ratio ((B)+(C)) / (A)						70.8%	

Notes: 1. Includes amount of direct reduction totaling ¥1,580.8 billion.

2. Includes reserves for assets which are not subject to disclosure under the Financial Reconstruction Law disclosure standards. (Bankrupt/effectively bankrupt borrowers: ¥4.2 billion; Potentially bankrupt borrowers: ¥8.2 billion)

3. The reserve ratio to normal borrowers is the proportion of the reserve to the total claims to normal borrowers. Reserve ratios to other borrowers are the proportions of the reserve to the respective claims of each category, excluding the portions secured by collateral or guarantees, etc.

4. The proportion of the reserve to the unsecured claims to substandard borrowers, excluding the claims to borrowers with specific reserves.

5. The proportion of the reserve to the claims, excluding the portion secured by collateral or guarantees, etc.

## □ Classification of Disclosed Assets under the Financial Reconstruction Law

Classification of Disclosed Assets	
Bankrupt and Quasi-Bankrupt Assets	This category is defined as the sum of credits to Bankrupt Borrowers and Effectively Bankrupt Borrowers as categorized by self-assessment, excluding Classification IV credits, which are fully written off. Classification III credits are fully covered by reserves and Classification I and II credits, the collectible portion, are secured by collateral or guarantees, etc.
Doubtful Assets	This category is defined as the credits to Potentially Bankrupt Borrowers under self-assessment. Specific reserves are set aside for Classification III credits, and Classification I and II credits, the collectible portion, are secured by collateral or guarantees, etc.
Substandard Loans	This is the portion of the loans extended to Borrowers Requiring Caution under self-assessment consisting of past due loans (three months or more) and restructured loans.
Normal Assets	This is the sum, as of term-end, of loans, securities lending, foreign exchange, accrued interest, advance payments and customers' liabilities for acceptances and guarantees that are not included in the other three categories.

## 2. Risk-Monitored Loans

In addition to the disclosure of problem assets in accordance with the Financial Reconstruction Law, we separately disclose the balance of "Risk-Monitored Loans" in accordance with the Banking Law.

On a nonconsolidated basis, Risk-Monitored Loans

amounted to ¥3,269.8 billion as of September 30, 2001, a ¥537.2 billion increase compared with March 31, 2001.

On a consolidated basis, Risk-Monitored Loans amounted to ¥3,782.9 billion.

### ■ Risk-Monitored Loans (as of September 30, 2001)

	Nonconsolidated			Consolidated		
	¥	Ratio to total loans	Compared with March 31, 2001	¥	Ratio to total loans	Compared with March 31, 2001
Bankrupt loans	217.1	0.4%	(18.6)	248.7	0.4%	(24.4)
Non-accrual loans	1,945.5	3.2	(262.0)	2,294.8	3.5	(282.7)
Past due loans (3 months or more)	105.7	0.2	2.5	124.5	0.2	(1.3)
Restructured loans	1,001.5	1.6	815.3	1,114.9	1.7	834.9
Total	¥3,269.8	5.4%	¥537.2	¥3,782.9	5.8%	¥ 526.5
Amount of direct reduction	¥1,550.5			¥1,984.8		

(Billions of yen)

## □ Disclosed Assets under the Financial Reconstruction Law and Risk-Monitored Loans

Category of borrowers under self-assessment	Disclosed assets under the Financial Reconstruction Law		Risk-monitored loans	
	Total loans	Other assets	Total loans	Other assets
Bankrupt Borrowers	Bankrupt and quasi-bankrupt assets		Bankrupt loans	(C)
Effectively Bankrupt Borrowers			Non-accrual loans	
Potentially Bankrupt Borrowers	Doubtful assets	Past due loans (3 months or more)		
Borrowers Requiring Caution	Substandard loans	Restructured loans		
Normal Borrowers	(Normal assets)			
	(A)		(B)	= (C)

The disclosure of Risk-Monitored Loans corresponds exactly to disclosure based on the Financial Reconstruction Law, except for such non-loan assets as securities lending, foreign exchange, accrued interest, advance payments and customers' liabilities for acceptances and guarantees, which are not included in the Risk-Monitored Loans category.

Since the interest income from borrowers classified by self-assessment in the Potentially Bankrupt Borrowers, Effectively Bankrupt Borrowers and Bankrupt Borrowers categories is not accrued as revenue, there is no accrued interest included in the assets disclosed on the basis of the Financial Reconstruction Law.

### ■ Disclosed Assets by Domicile of Borrowers (Nonconsolidated) (as of September 30, 2001)

(Billions of yen)

	Financial Reconstruction Law Standard	Percentage	Risk-Monitored Loans	Percentage
Domestic	¥3,175.8	95.5%	¥3,136.1	95.9%
Overseas	151.1	4.5%	133.7	4.1%
Asia	105.7	3.2%	95.3	2.9%
Indonesia	41.5	1.2%	40.0	1.2%
Hong Kong	19.2	0.6%	17.4	0.5%
India	7.4	0.2%	5.2	0.2%
China	3.9	0.1%	3.6	0.1%
Other	33.7	1.0%	29.1	0.9%
North America	39.0	1.2%	32.1	1.0%
Central and South America	0.9	0.0%	0.9	0.0%
Western Europe	1.7	0.1%	1.6	0.0%
Eastern Europe	3.8	0.1%	3.8	0.1%
Total	¥3,326.9	100.0%	¥3,269.8	100.0%

Note: "Domestic" means the total for domestic branches excluding the special account for international financial transactions. "Overseas" means the total for overseas branches including the special account for international financial transactions. The above countries and areas are categorized by the obligor's domicile.

### ■ Disclosed Assets by Type of Borrowers (Nonconsolidated) (as of September 30, 2001)

(Billions of yen)

	Financial Reconstruction Law Standard	Percentage	Risk-Monitored Loans	Percentage
Domestic	¥3,175.8	95.5%	¥3,136.1	95.9%
Manufacturing	272.5	8.2%	270.9	8.3%
Agriculture, forestry, fishery and mining	6.3	0.2%	6.2	0.2%
Construction	266.1	8.0%	265.8	8.1%
Wholesale and retail	396.2	11.9%	387.1	11.8%
Finance and insurance	106.7	3.2%	100.7	3.1%
Real estate	1,035.4	31.1%	1,033.6	31.6%
Transportation, communications and other public enterprises	55.0	1.7%	53.8	1.7%
Services	801.4	24.1%	798.1	24.4%
Municipalities	—	—	—	—
Other	236.2	7.1%	219.9	6.7%
Overseas	¥ 151.1	4.5%	¥ 133.7	4.1%
Public sector	15.3	0.4%	15.3	0.5%
Financial institutions	0.9	0.0%	0.9	0.0%
Commerce and industry	134.9	4.1%	117.5	3.6%
Other	0.0	0.0%	0.0	0.0%
Total	¥3,326.9	100.0%	¥3,269.8	100.0%

Note: "Domestic" means the total for domestic branches excluding the special account for international financial transactions. "Overseas" means the total for overseas branches including the special account for international financial transactions.

## Work-Out of Problem Assets by Removing Them from the Balance Sheet

Under the provisions of the Emergency Economic Package enacted in April 2001, we are publishing the results of the measures taken for the work-out of problem assets (that is, removing them from the balance sheet), as well as the amount of assets that were newly classified as bankrupt and quasi-bankrupt assets or doubtful assets.

During the first half of fiscal 2001, the Bank removed bankrupt and quasi-bankrupt assets, and doubtful assets of

¥696.7 billion. Of this amount, ¥399.7 billion was classified as bankrupt and quasi-bankrupt assets or doubtful assets during or before the first half of fiscal 2000, and ¥297.0 billion was classified as bankrupt and quasi-bankrupt assets or doubtful assets during the second half of fiscal 2000.

Assets newly classified as bankrupt and quasi-bankrupt assets or doubtful assets amounted to ¥383.3 billion during the period, resulting in a net reduction of ¥313.3 billion.

### ■ Term-End Balance of Bankrupt and Quasi-Bankrupt Assets, and Doubtful Assets (Nonconsolidated)

#### (1) Problem assets existing prior to and during the first half of fiscal 2000

(Billions of yen)

	September 30, 2000	March 31, 2001	September 30, 2001	Compared with March 31, 2001
Bankrupt and quasi-bankrupt assets	¥ 621.7	¥ 472.7	¥ 376.9	¥ (95.8)
Doubtful assets	2,567.9	1,353.1	1,049.2	(303.9)
Total	¥3,189.6	¥1,825.8	¥1,426.1	¥(399.7)

#### (2) Problem assets classified during the second half of fiscal 2000

	March 31, 2001	September 30, 2001	Compared with March 31, 2001
Bankrupt and quasi-bankrupt assets	¥117.2	¥141.6	¥ 24.4
Doubtful assets	590.1	268.7	(321.4)
Total	¥707.3	¥410.3	¥(297.0)

¥(696.7)

#### (3) Newly-classified problem assets during the first half of fiscal 2001

	September 30, 2001	Compared with March 31, 2001
Bankrupt and quasi-bankrupt assets	¥ 55.5	¥ 55.5
Doubtful assets	327.8	327.8
Total	¥383.3	¥383.3

#### (4) Total ((1)+(2)+(3))

	September 30, 2000	March 31, 2001	September 30, 2001	Compared with March 31, 2001
Bankrupt and quasi-bankrupt assets	¥ 621.7	¥ 589.9	¥ 574.0	¥ (15.9)
Doubtful assets	2,567.9	1,943.1	1,645.7	(297.4)
Total	¥3,189.6	¥2,533.0	¥2,219.7	¥(313.3)

### ■ Progress of Removal of Problem Assets from Balance Sheets (Nonconsolidated)

(Billions of yen)

	Existing prior to and during 1st half of fiscal 2000	Newly-classified during 2nd half of fiscal 2000	Total
Disposition by borrowers' liquidation	¥ (9.5)	—	¥ (9.5)
Re-constructive disposition	(47.8)	¥ (0.3)	(48.1)
Improvement in debtors' performance due to re-constructive disposition	—	—	—
Loan sales to secondary market	(194.5)	(5.6)	(200.1)
Write-offs	55.9	(138.2)	(82.3)
Others	(203.8)	(152.9)	(356.7)
Collection/repayment, etc.	(152.1)	(138.7)	(290.8)
Improvement in debtors' performance	(51.7)	(14.2)	(65.9)
Total	¥(399.7)	¥(297.0)	¥(696.7)

- Notes: 1. "Disposition by borrowers' liquidation" refers to abandonment or write-off of loans involved in bankruptcy liquidation proceedings (bankruptcy or special liquidations).  
 2. "Re-constructive disposition" refers to abandonment of loans involved in rehabilitative bankruptcy proceedings (corporate reorganization, civil rehabilitation, composition and arrangement), loan forgiveness involving special mediation or other types of civil mediation, or loan forgiveness for restructuring involving a private reorganization.  
 3. "Improvement in debtors' performance due to re-constructive disposition" was categorized as "Others" in the annual report for the year ended March 31, 2001.