

## Asset Quality

In the interest of disclosure of problem assets, SMBC provides information about the status of its assets in three different ways. First, self-assessment is conducted 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 the 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 exclude non-loan assets such as foreign exchange, accrued interest and advanced payments.

### ● Disposal of Problem Assets for Fiscal 2000

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

As a result of these self-assessments, on a nonconsolidated basis total credit cost (combined total for the two founding banks) amounted to ¥819.1 billion in fiscal 2000, including

the amounts transferred to the general reserve. These credit costs reflect three main factors. The protracted economic slump led to an increase in the number of borrowers experiencing financial difficulties or requiring fundamental restructuring. Deflation had a negative impact on some collateral value. And finally, both founding banks took precautionary measures to decrease problem assets prior to the merger.

As of March 31, 2001, the total reserve for possible loan losses (combined total for the two founding banks) stood at ¥1,095.8 billion.

On a consolidated basis, total credit cost amounted to ¥992.9 billion including the amounts transferred to the general reserve, bringing the total reserve for possible loan losses to ¥1,268.9 billion.

### 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 assessed against each category. As part of our overall measures to strengthen risk control throughout the Group, all consolidated subsidiaries basically use the same standards as the parent bank for write-offs and reserves.

Borrower Self-Assessment Category	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 for the past for each ratings 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 for the past for each group. The groups are “Substandard Assets” and “Other” and the latter group is further divided according to credit ratings, etc.
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	The Bank fundamentally 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 for possible loan losses against the full amount of Classification III assets.

### Self-Assessment

Self-assessment is the process used within a bank to calculate the write-offs and reserves that ensure the soundness of its assets. Each asset is assessed individually for its security and verity. Each borrower is classified into one of five categories—Normal Borrowers, Borrowers Requiring Caution, Potentially Bankrupt Borrowers, Effectively Bankrupt Borrowers and Bankrupt Borrowers—according to its current condition. A bank is further required to assess, on a scale of I to IV, the degree of the risk of default and non-collection, and the risk of asset devaluation. As a rule, our consolidated subsidiaries use the same system as part of our efforts to strengthen how risk is managed throughout the Group as a whole.

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

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

### Total Credit Cost Including General Reserve (Year ended March 31, 2001)

#### Nonconsolidated

(Billions of yen)

	Combined total	Sakura Bank	Sumitomo Bank
Total credit cost	¥1,007.7	¥317.1	¥ 690.6
Write-off of loans	741.4	240.5	500.9
Transfer to specific reserve	156.5	9.8	146.7
Transfer to reserve for losses on loans sold	52.9	33.9	19.1
Losses on loans sold to CCPC	31.7	20.4	11.4
Losses on sale of delinquent loans	25.1	8.5	16.6
Transfer to loan loss reserve for specific overseas countries	0.0	4.0	(4.0)
Transfer to general reserve for possible loan losses <sup>(1)</sup>	(188.6)	(56.0)	(132.6)
Total credit cost	¥ 819.1	¥261.1	¥ 558.0
Reserve for possible loan losses	¥1,095.8	¥424.8	¥ 671.0
Amount of direct reduction <sup>(2)</sup>	¥1,570.8	¥888.7	¥ 682.1

(1) Banking profit includes reserve for possible loan losses.

(2) Including direct reduction for assets which do not fall under the Financial Reconstruction Law disclosure standards.

#### Consolidated

(Billions of yen)

	Combined total	Sakura Bank	Sumitomo Bank
Total credit cost	¥ 992.9	¥ 346.6	¥646.3
Reserve for possible loan losses	¥1,268.9	¥ 512.0	¥756.8
Amount of direct reduction <sup>(3)</sup>	¥2,009.5	¥1,121.7	¥887.8

(3) Including direct reduction for assets which do not fall under the Financial Reconstruction Law disclosure standards.

## ● Disclosure of Problem Assets

### Assets Disclosed 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. The total value of assets in each category is disclosed.

On a nonconsolidated basis (combined total for the two founding banks), the total value of assets in all categories other than Normal Assets amounted to ¥2,822.5 billion as of March 31, 2001, an ¥818.0 billion decrease compared with March 31, 2000.

On a consolidated basis (combined total for the two founding banks), the amount was ¥3,355.0 billion.

### Classification of Disclosure Basis Assets

<b>Bankrupt and Quasi-Bankrupt Assets</b>	This category is defined as the sum of credits to Bankrupt Borrowers and Effectively Bankrupt Borrowers as categorized by self-assessment, minus fully written-off Classification IV credits. In addition, as all Classification III credits are fully covered by reserves, the remainder consists of the collective portion of credits secured by collateral or guarantees.
<b>Doubtful Assets</b>	This is the sum of credits extended to borrowers classified as Potentially Bankrupt under self-assessment. Since the sum includes credits that are secured by collateral or guarantees, and considered to be collectible assets, specific reserves are set aside for the unsecured portions under Classification III.
<b>Substandard Loans</b>	This is the sum of the loans extended to Borrowers Requiring Caution under self-assessment. This figure includes past due loans (three months or more) or restructured loans.
<b>Normal Assets</b>	This is the sum, as of term-end, of loans, securities lending, foreign exchange, accrued interest, advanced payments and customer liabilities for acceptance and guarantees that is not included in the other three categories. Normal assets thus represent the sum of credits to Normal Borrowers and that portion of credits identified through self-assessment as Borrowers Requiring Caution, but not classified as Substandard, and on which the risk of credit losses is deemed relatively small.

### Assets Disclosed under the Financial Reconstruction Law (Combined Total of Sakura and Sumitomo Banks) (As of March 31, 2001)

(Billions of yen)

	Nonconsolidated	Increase/decrease compared with March 31, 2000	Consolidated
Bankrupt and quasi-bankrupt assets	¥ 589.9 <sup>(1)</sup>	¥ 4.4	¥ 777.3 <sup>(2)</sup>
Doubtful assets	1,943.1	(288.9)	2,166.4
Substandard loans	289.4	(533.6)	411.2
Subtotal	2,822.5	(818.0)	3,355.0
Normal assets	66,157.8	123.2	68,290.6
Total	¥68,980.3	¥(694.9)	¥71,645.6

(1) After direct reduction of ¥1,567.4 billion

(2) After direct reduction of ¥1,991.6 billion



### Risk-Monitored Loans

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

On a nonconsolidated basis (combined total for the two founding banks), Risk-Monitored Loans amounted to ¥2,732.6 billion as of March 31, 2001, an ¥823.9 billion decrease compared with March 31, 2000.

On a consolidated basis (combined total for the two founding banks), Risk-Monitored Loans amounted to ¥3,256.4 billion.

### Risk-Monitored Loans (As of March 31, 2001)

#### Nonconsolidated

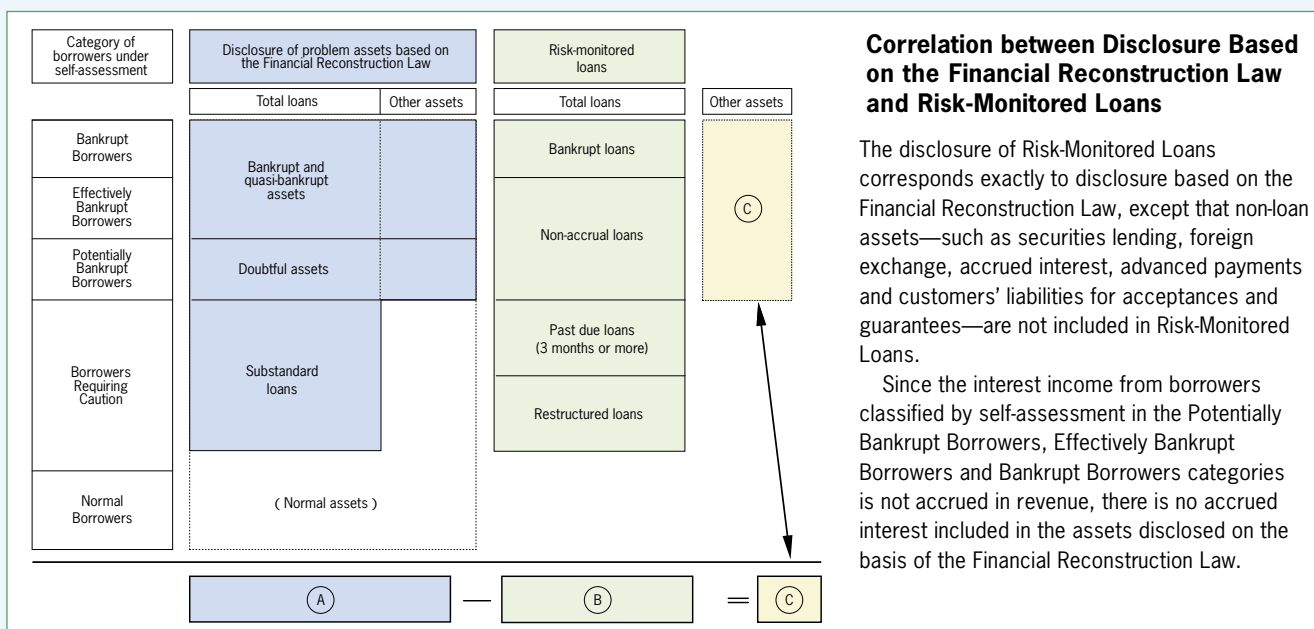
( Billions of yen )

	Combined total	Ratio to total loans	Increase/decrease compared with March 31, 2000	Sakura Bank	Sumitomo Bank
Bankrupt loans	¥ 235.7	0.4%	¥ 6.1	¥ 174.8	¥ 60.8
Non-accrual loans	2,207.5	3.6	(296.3)	849.9	1,357.6
Past due loans (3 months or more)	103.2	0.2	27.6	65.7	37.5
Restructured loans	186.2	0.3	(561.2)	124.6	61.6
<b>Total</b>	<b>¥2,732.6</b>	<b>4.4%</b>	<b>¥(823.9)</b>	<b>¥1,215.1</b>	<b>¥1,517.5</b>
Amount of direct reduction	¥1,540.4			¥ 877.9	¥ 662.5

#### Consolidated

( Billions of yen )

	Combined total	Ratio to total loans	Increase/decrease compared with March 31, 2000	Sakura Bank	Sumitomo Bank
Bankrupt loans	¥ 273.1	0.4%	¥ 9.5	¥ 197.4	¥ 75.7
Non-accrual loans	2,577.5	3.9	(359.0)	1,042.0	1,535.6
Past due loans (3 months or more)	125.8	0.2	6.8	75.9	49.9
Restructured loans	280.0	0.4	(265.6)	151.4	128.6
<b>Total</b>	<b>¥3,256.4</b>	<b>5.0%</b>	<b>¥(608.4)</b>	<b>¥1,466.6</b>	<b>¥1,789.8</b>
Amount of direct reduction	¥1,936.6			¥1,084.5	¥ 852.1



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

Under the provisions of the emergency economic program enacted in April 2001, we are publishing the results of the measures taken for the work-out of problem assets (removing them from the balance sheet), as well as the assets that were newly classified as being extended to Potentially Bankrupt Borrowers or lower categories.

At September 30, 2000, the balance of assets extended to Potentially Bankrupt Borrowers or lower categories (combined total for the two founding banks) was ¥3,189.6 billion. Of this,

¥1,363.8 billion was disposed of during the second half of fiscal 2000, leaving the balance of assets extended to existing Potentially Bankrupt Borrowers or lower categories at ¥1,825.8 billion. While the disposal of assets extended to Potentially Bankrupt Borrowers or lower categories is proceeding at a reasonable pace, the balance of assets newly classified as Potentially Bankrupt Borrowers or lower categories grew by ¥707.3 billion in the second half of fiscal 2000, bringing the final total to ¥2,533.0 billion as of March 31, 2001. This was ¥656.5 billion less than the balance as of September 30, 2000.

### Credits to Potentially Bankrupt Borrowers or Lower Categories in the Financial Reconstruction Law (Combined Totals of Sakura and Sumitomo Banks)

	Problem assets occurring prior to second half of fiscal 2000			Newly occurred problem assets during second half of fiscal 2000 (C)	Problem assets as of March 31, 2001 (B) + (C)
	As of Sept. 30, 2000 (A)	As of March 31, 2001 (B)	Decrease (B) - (A)		
Bankrupt and quasi-bankrupt assets	¥ 621.7	¥ 472.7	¥ (149.0)	¥117.2	¥ 589.9
Doubtful assets	2,567.9	1,353.1	(1,214.8)	590.1	1,943.1
Total	¥3,189.6	¥1,825.8	¥(1,363.8)	¥707.3	¥2,533.0

#### Progress in Decreasing Problem Assets

	(Billions of yen)
	Second half of fiscal 2000
Disposition by borrower's liquidation	¥ (64.3)
Re-constructive disposition	(348.3)
Loan sales to secondary market, Securitization etc.	(208.4)
Direct write-off	97.7
Others	(840.5)
Total	¥(1,363.8)

Disposition by borrower's liquidation:  
Omission or write-off of loans involved in bankruptcy liquidation proceedings (bankruptcy or special liquidations)

Re-constructive disposition:  
Omission of loans involved in foreclosure 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

Others:  
Collection, improvement in debtors' performance

## ● Reserve for Possible Loan Losses (As of March 31, 2001)

### Nonconsolidated

	(Billions of yen)		
	Combined total	Sakura Bank	Sumitomo Bank
Reserve for possible loan losses (a)	¥1,095.8	¥ 424.8	¥ 671.0
General reserve	367.8	142.8	225.0
Specific reserve	708.1	270.3	437.7
Loan loss reserve for specific overseas countries	20.0	11.6	8.4
Risk-monitored loans (b)	¥2,732.6	¥1,215.1	¥1,517.5
Reserve ratio (a) / (b)	40.1%	35.0%	44.2%

### Consolidated

	(Billions of yen)		
	Combined total	Sakura Bank	Sumitomo Bank
Reserve for possible loan losses (a)	¥1,268.9	¥ 512.0	¥ 756.8
General reserve	395.9	163.2	232.7
Specific reserve	853.0	337.2	515.7
Loan loss reserve for specific overseas countries	20.0	11.6	8.4
Risk-monitored loans (b)	¥3,256.4	¥1,466.6	¥1,789.8
Reserve ratio (a) / (b)	39.0%	34.9%	42.3%

**Problem Assets by Domicile of Borrower (Nonconsolidated)** (As of March 31, 2001)

**The Financial Reconstruction Law Standard**

( Billions of yen )

	Combined total	Percentage	Sakura Bank	Sumitomo Bank
Domestic	¥2,702.1	95.7%	¥1,218.4	¥1,483.7
Overseas	120.4	4.3	42.5	77.9
Asia	85.6	3.0	33.1	52.5
Indonesia	22.6	0.8	11.6	11.0
Hong Kong	15.1	0.5	3.0	12.1
Thailand	14.6	0.5	5.3	9.3
Malaysia	11.4	0.4	5.9	5.6
Other	21.9	0.8	7.3	14.5
North America	28.9	1.0	5.0	23.9
Central and South America	0.9	0.0	0.9	-
Western Europe	2.2	0.1	2.2	-
Eastern Europe	2.7	0.1	1.3	1.4
Middle East/Africa	-	-	-	-
<b>Total</b>	<b>¥2,822.5</b>	<b>100.0%</b>	<b>¥1,260.9</b>	<b>¥1,561.6</b>

**Risk-Monitored Loans**

( Billions of yen )

	Combined total	Percentage	Sakura Bank	Sumitomo Bank
Domestic	¥2,632.2	96.3%	¥1,178.2	¥1,454.0
Overseas	100.4	3.7	36.9	63.5
Asia	78.4	2.9	28.9	49.5
Indonesia	21.0	0.8	10.0	11.0
Hong Kong	13.1	0.5	3.0	10.1
Thailand	14.4	0.5	5.2	9.3
Malaysia	10.7	0.4	5.8	4.9
Other	19.2	0.7	4.9	14.2
North America	16.2	0.6	3.5	12.7
Central and South America	0.9	0.0	0.9	-
Western Europe	2.2	0.1	2.2	-
Eastern Europe	2.6	0.1	1.3	1.3
Middle East/Africa	-	-	-	-
<b>Total</b>	<b>¥2,732.6</b>	<b>100.0%</b>	<b>¥1,215.1</b>	<b>¥1,517.5</b>

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

**Problem Assets by Domicile and Type of Borrower (Nonconsolidated)** (As of March 31, 2001)

**The Financial Reconstruction Law Standard**

( Billions of yen )

	Combined total	Percentage	Sakura Bank	Sumitomo Bank
Domestic	¥2,702.1	95.7%	¥1,218.4	¥1,483.7
Manufacturing	164.4	5.8	84.9	79.5
Agriculture, forestry, fishery and mining	7.6	0.3	5.8	1.9
Construction	99.8	3.5	64.9	34.8
Wholesale and retail	421.3	14.9	242.9	178.3
Finance and insurance	114.9	4.1	9.9	105.0
Real estate	856.8	30.4	366.2	490.6
Transportation, communications and other public enterprises	65.3	2.3	38.2	27.1
Services	780.3	27.6	302.1	478.2
Municipalities	0.5	0.0		0.5
Other	191.2	6.8	103.3	87.8
Overseas	120.4	4.3	42.5	77.9
Public sector	1.1	0.0	1.1	
Financial institutions	5.0	0.2	0.0	5.0
Commerce and industry	114.2	4.0	41.2	72.9
Other	0.2	0.0	0.2	
Total	¥2,822.5	100.0%	¥1,260.9	¥1,561.6

**Risk-Monitored Loans**

( Billions of yen )

	Combined total	Percentage	Sakura Bank	Sumitomo Bank
Domestic	¥2,632.2	96.3%	¥1,178.2	¥1,454.0
Manufacturing	162.6	6.0	83.7	78.9
Agriculture, forestry, fishery and mining	7.3	0.3	5.4	1.9
Construction	99.0	3.6	64.3	34.8
Wholesale and retail	404.8	14.8	233.7	171.0
Finance and insurance	103.0	3.8	7.5	95.5
Real estate	844.4	30.9	363.0	481.4
Transportation, communications and other public enterprises	61.4	2.2	34.3	27.1
Services	775.5	28.4	297.6	477.9
Municipalities	0.5	0.0		0.5
Other	173.7	6.4	88.8	85.0
Overseas	100.4	3.7	36.9	63.5
Public sector	1.1	0.0	1.1	
Financial institutions	4.3	0.2		4.3
Commerce and industry	94.8	3.5	35.6	59.2
Other	0.2	0.0	0.2	
Total	¥2,732.6	100.0%	¥1,215.1	¥1,517.5

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