

Fiscal 2001 Results

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 suspense payments.

Disposal of Problem Assets for 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 *Practical Guideline* published by the Japanese Institute of Certified Public Accountants.

Total credit cost for fiscal 2001, the year ended March 31, 2002, mainly reflects our preparations for coping with possible risks accompanying claims to Borrowers Requiring Caution, including raising the reserve ratio due to the prolonged economic slump, and additional reserves for the possible reorganization costs of problematic corporate borrowers. Moreover, borrowers' deteriorating financial condition, ongoing declines in collateral values, and the Bank's aggressive program of off-balancing problem assets also affected the total credit cost. As a result, nonconsolidated total credit cost amounted to ¥1,543.1 billion for fiscal 2001, bringing the total reserve for possible loan losses to ¥1,971.8 billion at the fiscal year-end.*

On a consolidated basis, total credit cost amounted to ¥1,703.4 billion for fiscal 2001, including the amount transferred to the general reserve for possible loan losses, bringing the total reserve for possible loan losses to ¥2,159.6 billion as of March 31, 2002.**

* All Classification IV assets are basically directly written off using the direct reduction method even if the assets were not classified as tax-free write-offs. The amount of direct reduction totaled ¥1,405.1 billion.

** The amount of direct reduction totaled ¥1,824.3 billion.

Self-Assessment

Self-assessment is a preparatory task prior to calculating the appropriate level of write-offs and reserves to ensure the Bank's asset quality. Each asset is assessed individually for its security and verity. Depending on its current condition, each borrower is assigned to one of five categories: Normal Borrowers, Borrowers Requiring Caution, Potentially Bankrupt Borrowers, Effectively Bankrupt Borrowers, or Bankrupt Borrowers. The risk of default and noncollection and the risk of asset devaluation are then assessed on a scale from I to IV. As part of our efforts to bolster risk management throughout the Group, our consolidated subsidiaries, in principle, employ the same standards.

Borrower Categories, Defined	
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, Defined	
Classification I	Assets not classified under Classifications II, III, or IV
Classification II	Assets perceived to have an above-average risk of noncollectibility
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 (Nonconsolidated; year ended March 31, 2002)

(Billions of yen)

Credit cost	¥1,038.6
Write-off of loans	283.9
Transfer to specific reserve	663.2
Transfer to reserve for losses on loans sold	37.0
Losses on loans sold to CCPC	8.4
Losses on sale of delinquent loans	50.6
Transfer to loan loss reserve for specific overseas countries	(4.5)
Transfer to general reserve for possible loan losses	504.5
Total credit cost	¥1,543.1
Reserve for possible loan losses	¥1,971.8
Amount of direct reduction	¥1,405.1

■ Credit Cost (Consolidated; year ended March 31, 2002)

(Billions of yen)

Total credit cost	¥1,703.4
Reserve for possible loan losses	¥2,159.6
Amount of direct reduction	¥1,824.3

■ Reserve for Possible Loan Losses (March 31, 2002)

(Billions of yen)

	Nonconsolidated	Consolidated
Reserve for possible loan losses (a)	¥1,971.8	¥2,159.6
General reserve	872.3	929.5
Specific reserve	1,084.1	1,214.7
Loan loss reserve for specific overseas countries	15.4	15.4
Risk-monitored loans (b)	¥5,816.5	¥6,484.4
Reserve ratio (a) / (b)	33.9%	33.3%

□ Write-Offs and Reserves Assessments

Under self-assessment, each borrower is evaluated and assigned to one of five categories—Normal Borrowers, Borrowers Requiring Caution, Potentially Bankrupt Borrowers, Effectively Bankrupt Borrowers, or Bankrupt Borrowers—and standards for write-offs and reserves are applied to each category.

Self-Assessment Borrower Categories	Standards 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 past bankruptcy rate for each 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 past bankruptcy rate for each group. The groups are "substandard borrowers" and "other." The latter group is further divided according to credit situation, etc.
Potentially Bankrupt Borrowers	The Bank sets specific reserves for possible loan losses on the portion of Classification III assets (calculated for each borrower) not secured by collateral, guarantee, or other means.
Effectively Bankrupt/Bankrupt Borrowers	Of each borrower's assets classified as Classification III or IV assets, in principle, the Bank writes off the full amount of Classification IV assets (deemed to be uncollectible or of no value) and sets aside specific reserves 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, in principle, use the same standards as the parent Bank for write-offs and reserves.

Disclosure of Problem Assets

1. Problem Assets Based on 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 ¥5,900.0 billion as of March 31, 2002, a ¥3,077.5 billion increase compared with March 31, 2001. This increase is mainly due to three factors: (1)

measures taken toward borrowers with large exposures accompanying their progress in restructuring, (2) the classification as Potentially Bankrupt Borrowers of certain borrowers requiring a significant amount of time to regain financial health, and (3) the expansion of the scope of restructured loans for inclusion in the Substandard Loans category. On a consolidated basis, the total value of assets in all categories other than Normal Assets was ¥6,567.7 billion.

■ Problem Assets Based on the Financial Reconstruction Law (March 31, 2002)

(Billions of yen)

	Nonconsolidated	Compared with March 31, 2001	Consolidated
Bankrupt and quasi-bankrupt assets	¥ 493.5	¥ (96.4)	¥ 638.2
Doubtful assets	2,970.2	1,027.1	3,263.4
Substandard loans	2,436.3	2,146.9	2,666.1
Subtotal	5,900.0	3,077.5	6,567.7
Normal assets	60,558.9	(5,598.9)	61,896.4
Total	¥66,458.9	¥(2,521.4)	¥68,464.1
Amount of direct reduction	¥ 1,405.1		¥ 1,803.2

■ Classification under Self-Assessment, Disclosure of Problem Assets, and Write-Offs/Reserves (Nonconsolidated; March 31, 2002)

(Billions of yen)

Category of borrowers under self-assessment	Problem assets based on the Financial Reconstruction Law	Classification under self-assessment				Reserve for possible loan losses	Reserve ratio
		Classification I	Classification II	Classification III	Classification IV		
Bankrupt Borrowers	Bankrupt and quasi-bankrupt assets (1) ¥493.5	Portion of claims secured by collateral or guarantees, etc. (4) ¥474.8	Fully reserved ¥18.7	Direct write-offs (Note 1)	Specific reserve ¥22.4 (Note 2)	100% (Note 3)	
Effectively Bankrupt Borrowers							
Potentially Bankrupt Borrowers	Doubtful assets (2) ¥2,970.2	Portion of claims secured by collateral or guarantees, etc. (5) ¥1,572.1	Necessary amount reserved ¥1,398.1		¥1,061.7 (Note 2)	75.9% (Note 3)	
Borrowers Requiring Caution	Substandard loans (3) ¥2,436.3 (Claims to substandard borrowers)						Portion of substandard loans secured by collateral or guarantees, etc. (6) ¥1,099.3
Normal Borrowers	Normal assets ¥60,558.9	Claims to borrowers requiring caution, excluding claims to substandard borrowers		General reserve ¥872.3	5.1% [9.4%] (Note 4)	0.2% (Note 4)	
		Claims to normal borrowers					
					Loan loss reserve for specific overseas countries ¥15.4		
	Total ¥66,458.9				Total reserve for possible loan losses ¥1,971.8		
	(A)=(1)+(2)+(3) ¥5,900.0				(B) Specific reserve + General reserve for substandard loans ¥1,374.9	Reserve ratio (Note 5) (B) / (D) 49.9%	
		Portion secured by collateral or guarantees, etc. (C)=(4)+(5)+(6) ¥3,146.2	Unsecured portion (D)=(A)-(C) ¥2,753.8				
					Coverage ratio ((B)+(C)) / (A)	76.6%	

Notes: 1. Includes amount of direct reduction totaling ¥1,405.1 billion.

2. Includes reserves for assets that are not subject to disclosure under the Financial Reconstruction Law disclosure standards. (Bankrupt/effectively bankrupt borrowers: ¥3.7 billion; Potentially bankrupt borrowers: ¥11.9 billion)

3. Reserve ratios for claims to Bankrupt/Effectively Bankrupt Borrowers, Potentially Bankrupt Borrowers, Substandard Borrowers, and Borrowers Requiring Caution: The proportion of each category's total unsecured claims covered by reserve for possible loan losses.

4. Reserve ratios for claims to Normal Borrowers and Borrowers Requiring Caution (excluding claims to Substandard Borrowers): The proportion of each category's total claims covered by reserve for possible loan losses. The reserve ratio of unsecured claims to Borrowers Requiring Caution (excluding claims to Substandard Borrowers) is shown in brackets.

5. Reserve ratio = (Specific reserve + General reserve for substandard loans) ÷ (Bankrupt and quasi-bankrupt assets + Doubtful assets + Substandard loans - Portion secured by collateral, guarantee, etc.)

Classification of Problem Assets Based on the Financial Reconstruction Law

Bankrupt and Quasi-Bankrupt Assets	This category is defined as the sum of assets to Bankrupt Borrowers and Effectively Bankrupt Borrowers as categorized by self-assessment, excluding Classification IV assets, which are fully written off. Classification III assets are fully covered by reserves, and Classification I and II assets, the collectible portion, are secured by collateral or guarantees, etc.
Doubtful Assets	This category is defined as the assets to Potentially Bankrupt Borrowers under self-assessment. Specific reserves are set aside for Classification III assets, and Classification I and II assets, the collectible portion, are secured by collateral or guarantees, etc.
Substandard Loans	This category is defined as the sum of the loans extended to Borrowers Requiring Caution under self-assessment. This category includes past due loans (three months or more) and restructured loans.
Normal Assets	This category is defined as the sum, as of the term-end, of loans, securities lending, foreign exchange, accrued interest, suspense 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 ¥5,816.5 billion as of March 31, 2002, a ¥3,083.9 billion increase compared with March 31, 2001. On a consolidated basis, Risk-Monitored Loans amounted to ¥6,484.4 billion.

■ Risk-Monitored Loans (March 31, 2002)

	Nonconsolidated			Consolidated		
		Ratio to total loans	Compared with March 31, 2001		Ratio to total loans	Compared with March 31, 2001
Bankrupt loans	¥ 195.7	0.3%	¥ (40.0)	¥ 227.5	0.4%	¥ (45.7)
Non-accrual loans	3,184.5	5.3	977.0	3,599.7	5.7	1,022.2
Past due loans (3 months or more)	92.3	0.2	(10.9)	102.8	0.2	(23.0)
Restructured loans	2,344.0	3.9	2,157.8	2,554.4	4.0	2,274.4
Total	¥5,816.5	9.7%	¥3,083.9	¥6,484.4	10.2%	¥3,227.9
Amount of direct reduction	¥1,373.7			¥1,768.8		

(Billions of yen)

□ Problem Assets Based on the Financial Reconstruction Law, and Risk-Monitored Loans

Category of borrowers under self-assessment	Problem assets based on 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 the disclosure of problem assets based on the Financial Reconstruction Law, except for such non-loan assets as securities lending, foreign exchange, accrued interest, suspense payments, and customers' liabilities for acceptances and guarantees, which are not included in the Risk-Monitored Loans category.

Since overdue interest from borrowers classified under self-assessment as Potentially Bankrupt Borrowers, Effectively Bankrupt Borrowers, and Bankrupt Borrowers is, as a rule, not recorded as accrued interest, the amount is not included in the problem assets disclosed on the basis of the Financial Reconstruction Law.

■ Problem Assets, by Domicile of Borrowers (Nonconsolidated; March 31, 2002)

(Billions of yen)

	Financial Reconstruction Law Basis	Percentage	Risk-Monitored Loans	Percentage
Domestic	¥5,732.7	97.2%	¥5,671.2	97.5%
Overseas	167.3	2.8	145.3	2.5
Asia	103.6	1.7	89.3	1.5
Indonesia	40.8	0.7	39.1	0.7
Hong Kong	16.0	0.3	13.9	0.2
India	7.0	0.1	4.8	0.1
China	12.3	0.2	12.0	0.2
Others	27.5	0.4	19.5	0.3
North America	46.4	0.8	38.9	0.7
Central and South America	2.1	0.0	2.1	0.0
Western Europe	11.4	0.2	11.2	0.2
Eastern Europe	3.8	0.1	3.8	0.1
Total	¥5,900.0	100.0%	¥5,816.5	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.

■ Problem Assets, by Type of Borrowers (Nonconsolidated; March 31, 2002)

(Billions of yen)

	Financial Reconstruction Law Basis	Percentage	Risk-Monitored Loans	Percentage
Domestic	¥5,732.7	97.2%	¥5,671.2	97.5%
Manufacturing	317.6	5.4	314.6	5.4
Agriculture, forestry, fishery and mining	5.2	0.1	5.2	0.1
Construction	1,035.5	17.6	1,014.6	17.5
Wholesale and retail	736.6	12.5	725.4	12.5
Finance and insurance	219.3	3.7	216.9	3.7
Real estate	2,046.5	34.7	2,042.6	35.1
Transportation, communications, and other public enterprises	66.3	1.1	65.1	1.1
Services	998.5	16.9	995.5	17.1
Municipalities	—	—	—	—
Others	307.2	5.2	291.3	5.0
Overseas	¥ 167.3	2.8%	¥ 145.3	2.5%
Public sector	13.6	0.2	13.6	0.2
Financial institutions	2.9	0.0	2.9	0.1
Commerce and industry	150.8	2.6	128.8	2.2
Others	—	—	—	—
Total	¥5,900.0	100.0%	¥5,816.5	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.

Off-Balancing Problem Assets

Under the provisions of the Emergency Economic Package enacted in April 2001, we are publishing the results of measures taken for the off-balancing of problem assets, as well as the amount of assets that were newly classified as Bankrupt and Quasi-Bankrupt Assets or Doubtful Assets.

The amount of doubtful assets rose owing to higher reserves

required in line with progress in business restructurings by borrowers with large exposures, and to the classification as Potentially Bankrupt Borrowers of borrowers that are likely to take longer to regain financial soundness. As a result, we off-balanced ¥696.7 billion in the first half of fiscal 2001, and ¥584.5 billion in the second half of fiscal 2001. In this way, the Bank has adopted an aggressive program with regard to off-balancing.

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

	September 30, 2000	March 31, 2001	Off-balanced during first half of fiscal 2001	September 30, 2001	Off-balanced during second half of fiscal 2001	(Billions of yen) March 31, 2002
(1) Problem assets existing prior to and during the first half of fiscal 2000						
Bankrupt and quasi-bankrupt assets	¥ 621.7	¥ 472.7		¥ 376.9		¥ 281.1
Doubtful assets	2,567.9	1,353.1		1,049.2		843.4
Total	¥3,189.6	¥1,825.8	(399.7)	¥1,426.1	(301.6)	¥1,124.5
(2) Problem assets classified during the second half of fiscal 2000						
Bankrupt and quasi-bankrupt assets		¥ 117.2		¥ 141.6		¥ 57.3
Doubtful assets		590.1		268.7		144.2
Total		¥ 707.3	(297.0)	¥ 410.3	(208.8)	¥ 201.5
(3) Problem assets classified during the first half of fiscal 2001						
Bankrupt and quasi-bankrupt assets				¥ 55.5		¥ 76.0
Doubtful assets				327.8		233.2
Total				¥ 383.3	(74.1)	¥ 309.2
(4) Problem assets newly classified during the second half of fiscal 2001						
Bankrupt and quasi-bankrupt assets						¥ 79.1
Doubtful assets						1,749.4
Total						¥1,828.5
Total((1)+(2)+(3)+(4))						
Bankrupt and quasi-bankrupt assets	¥ 621.7	¥ 589.9		¥ 574.0		¥ 493.5
Doubtful assets	2,567.9	1,943.1		1,645.7		2,970.2
Total	¥3,189.6	¥2,533.0	(696.7)	¥2,219.7	(584.5)	¥3,463.7

Breakdown of Off-Balancing (Nonconsolidated)

	Off-balanced during first half of fiscal 2001	Off-balanced during second half of fiscal 2001
Disposition by borrowers' liquidation	(9.5)	(68.3)
Reconstructive disposition	(48.1)	(34.8)
Improvement in debtors' performance due to reconstructive disposition	—	—
Loan sales to market	(200.1)	(234.7)
Direct write-offs	(82.3)	120.2
Others	(356.7)	(366.9)
Collection/repayment, etc.	(290.8)	(281.4)
Improvement in debtors' performance	(65.9)	(85.5)
Total	(696.7)	(584.5)

Notes: 1. "Disposition by borrowers' liquidation" refers to the abandonment or write-off of loans involved in bankruptcy liquidation proceedings (bankruptcy or special liquidations).

2. "Reconstructive disposition" refers to the 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.