Sumitomo Mitsui Financial Group, Inc.

**Major questions and answers on the financial results for FY3/2017**

Frequently asked questions and our answers on the financial results for FY3/2017, announced on May 15, 2017 are as follows. For the overview of the financial results, please refer to the announcement posted on our website at:
http://www.smfg.co.jp/english/investor/financial/latest_statement/2017_3/h2903_e4_01.pdf

## 1. Financial results for FY3/2017

Q1. Please explain the major factors of the year-on-year increase in SMFG's consolidated Profit attributable to owners of parent.

A1. SMFG's consolidated Profit attributable to owners of parent was JPY 706.5 billion, JPY 59.8 billion higher compared with the previous fiscal year.
Consolidated Gross profit increased by JPY 16.8 billion year-on-year. This increase was mainly led by revenue growth at SMBC Nikko Securities by taking advantage of the upturn in market conditions and by profit contribution of SMFL Capital, which was consolidated from FY3/2017, in spite of impact from the negative interest rate policy such as a decrease in interest income from loans and deposits as well as sluggish growth in the wealth management and brokerage businesses arising from market stagnation in the first half of the year.
While both General and administrative expenses and Total credit cost increased, consolidated Ordinary profit rose by JPY 20.6 billion year-on-year, largely due to the absence of provisions for losses on interest repayments at SMBC Consumer Finance in FY3/2016.
Additionally, tax cost decreased mainly as a result of an increase in deferred tax assets recoverable in the future by implementing the consolidated corporate-tax system from FY3/2018.

Q2. Please explain the major factors of the year-on-year increase in SMFG's consolidated General and administrative expenses.

A2. SMFG's consolidated General and administrative expenses was a net cost of JPY 1,812.4 billion, a JPY 87.6 billion increase compared with the previous fiscal year.
This increase was due in part to IT investments in the past years and the enhancement of top-line profit growth such as strengthening overseas business despite our continuous efforts to control expenses in the entire group.

Q3. Please explain the major factors of the year-on-year increase in SMFG's consolidated Total credit cost.

A3. SMFG's consolidated Total credit cost was a net cost of JPY 164.4 billion, a JPY 61.6 billion increase compared with the previous fiscal year.
This was largely caused by an increase of JPY 64.3 billion year-on-year to JPY 61.1 billion at SMBC due to worsened business results of an obligor with large exposure.

Q4 Please explain SMFG's consolidated Common equity Tier 1 capital ratio as of March 31, 2017.

A4. SMFG's consolidated Common equity Tier 1 capital ratio as of March 31, 2017 stood at 12.17%.

## 2. Earnings targets

Q5. Please explain the major factors of SMFG's consolidated Profit attributable to owners of parent target for FY3/2018 compared with FY3/2017 results.

A5. SMFG's consolidated Profit attributable to owners of parent target for FY3/2018 is JPY 630 billion, approximately JPY 77 billion lower compared with FY3/2017 results.
Consolidated Net business profit is expected to remain almost flat from FY3/2017 in spite of challenging earnings environment partly led by the continued negative interest rate policy. This is because we expect an increase in consolidated Gross profit through the increase of non-interest income, while General and administrative expenses are anticipated to increase due mainly to revenue-linked variable costs and the effects from investments over the past years.
We anticipate a rise in Total credit cost as well since the reversal of reserve for possible loan losses is expected to decrease going forward. As a result, Consolidated Ordinary profit target is down by approximately JPY 36 billion year-on-year to JPY 970 billion and Profit attributable to owners of parent target is lower by JPY 77 billion to JPY 630 billion. Meanwhile, the Profit attributable to owners of parent target is substantially about a JPY 30 billion increase year-on-year, considering that the FY3/2017 result was pushed up by approximately JPY 100 billion due to implementing the consolidated corporate-tax system.

Q6. Please explain the economic assumptions of the FY3/2018 earnings target such as interest and exchange rate.

A6. We assume that the yen interest rate will be unchanged from March 31, 2017. Our assumptions of the foreign exchange rate are JPY 110 per U.S. dollar and JPY 115 per Euro.

## 3. Others

Q7. Please explain the achievement of the medium-term management plan from FY3/2015 to FY3/2017.

A7. We missed growth and profitability targets since the business environment was worse than our original assumptions, for example, the stagnation of the Asian economy arising from a slowdown in China, as well as the expansion of quantitative and qualitative monetary easing and the introduction of the negative interest rate policy by the Bank of Japan. On the other hand, we have achieved our targeted capital level.

- Growth rate of Consolidated gross profit: + 0.8%(*1) (target: around+15%(*1))
- Consolidated ROE: 9.1% (target: around 10%)
- Consolidated Net income RORA: 1.00% (target: around 1%)
- Consolidated overhead ratio: 62.1% (target: in the mid 50%)
- Common equity Tier 1 capital ratio(*2): 12.2% (target: around 10%)
  (Excluding net unrealized gains on Other securities: 10.0%)

*1 Consolidated Gross profit increase in comparison with the FY3/2014 figure

*2 SMFG consolidated basis; Basel III fully-loaded, based on the definition as of March 31, 2019

Q8. Please explain the main points of the new medium-term management plan.

A8. In the previous medium-term management plan which we launched in April 2014, SMFG has set a vision for the next decade as “becoming a global financial group that, by earning the highest trust of our customers, leads the growth of Japan and the Asian region” and has worked toward the realization.

Under the new medium-term management plan “SMFG Next Stage”, we have established three core policies in order to achieve sustainable growth and get to the next stage of our journey towards our mid-long term vision.

**(1) Disciplined business management**

**(2) Focus on our strengths to generate growth**

**(3) Integration across the Group and globally to achieve sustainable growth**

The financial targets for FY3/2020 ( SMFG consolidated basis) are shown below.

| | | |
|---|---|---|
| Capital Efficiency | ROE | 7-8% |
| Cost Efficiency | Overhead ratio | 1% reduction compared with FY3/2017 |
| Financial Soundness | CET1 ratio(*3), (*4) | 10% |

*3 Calculated with RwA inflated by 25% compared to the current level based on our assumption of the final impact of Basel III reforms

*4 CET1: excludes net unrealized gains on other securities
RwA: excludes RwA associated with unrealized gains on stocks

In terms of overhead ratio, although there will be some short term negative impact from past investments, we will seek to push the trend downwards by controlling costs thoroughly, and to reduce the ratio to around 60% soon after fiscal FY3/2020. Further, we will secure financial soundness by strengthening our capital base in response to the expected tightening of international financial regulations.

We will enhance shareholder value in a sustainable manner by balancing financial soundness, return to shareholders, and investment for growth. We will adopt a progressive dividend policy(*5) and seek to achieve a dividend payout ratio of 40%. Regarding share buybacks, we will lay out our policy after the finalization of Basel III reforms.

*5 dividend policy which does not reduce dividends and at least maintains or increases dividend each year

Q9. Please explain the progress and future schedule regarding the reduction of strategic shareholdings.

A9. As a medium- and long-term plan to reduce strategic shareholdings, we aim to have the assurance of reducing the Ratio of Stocks-to-CET1(*6) by half within approximately 5 years (beginning at Sep.30, 2015), which means reducing book value of up to about 30% or about JPY 500 billion of domestic listed stocks.
In FY3/2017, we made a reduction of approximately JPY 100 billion of strategic shareholdings. The Ratio of Stock-to-CET1 capital as of March 31, 2017 was 23.7% lower than the Ratio of 28.2% as of September 30, 2015.
We also plan to reduce strategic shareholdings by JPY 100 billion in FY3/2018.

*6 The Ratio of Stocks-to-CET1 capital =
SMFG consolidated basis The book value of domestic listed stocks / Common Equity Tier 1 capital (*7)

*7 Basel III fully-loaded basis, excluding net unrealized gains on Other securities.

This document contains “forward-looking statements” (as defined in the U.S. Private Securities Litigation Reform Act of 1995), regarding the intent, belief or current expectations of us and our managements with respect to our future financial condition and results of operations. In many cases but not all, these statements contain words such as “anticipate”, “estimate”, “expect”, “intend”, “may”, “plan”, “probability”, “risk”, “project”, “should”, “seek”, “target”, “will” and similar expressions. Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ from those expressed in or implied by such forward-looking statements contained or deemed to be contained herein. The risks and uncertainties which may affect future performance include: deterioration of Japanese and global economic conditions and financial markets; declines in the value of our securities portfolio; our ability to successfully implement our business strategy through our subsidiaries, affiliates and alliance partners; exposure to new risks as we expand the scope of our business; and incurrence of significant credit-related costs. Given these and other risks and uncertainties, you should not place undue reliance on forward-looking statements, which speak only as of the date of this document. We undertake no obligation to update or revise any forward-looking statements.
Please refer to our most recent disclosure documents such as our annual report on Form 20-F and other documents submitted to the U.S. Securities and Exchange Commission, as well as earnings press releases, for a more detailed description of the risks and uncertainties that may affect our financial conditions and results of operations, and investors’ decisions.