

Presentation at Bank of America Merrill Lynch 2017 Japan Conference
Major questions and answers

Q1. Please tell us how the ROE target of 7-8% was set in the Medium-Term Management Plan.

A1. There were three factors considered when we set the ROE target at 7-8%. First is that we assumed the earnings environment to be even more difficult than before having structural downside factors such as falling domestic net interest income resulting from the contraction of the loan spread and rising foreign currency funding costs. Second is that we will prioritize accumulating capital for now, given that SMFG's risk-weighted assets are estimated to increase by around 25% with a capital floor of 70%, as a result of the tightening international financial regulations. Third is that SMFG's consolidated Profit attributable to owners of parent for FY3/17 was inflated by approximately ¥100 billion resulting from the effect of implementing the consolidated corporate-tax system. After eliminating this one-time factor, our ROE for FY3/17 would be adjusted to 7.8%, whereas the actual result was 9.1%.

However, as the CEO of SMFG, the targeted ROE of 7-8% is not a level I am satisfied with, and will try to improve this as much as possible. We will also be looking for an upside when the macro environment turns favorable, such as the upturn of the U.S. economy, the rise of interest rates in the U.S., the removal of the negative interest rate policy by the Bank of Japan, or as a preliminary step towards that to raise the target level of the 10 year JGB yields. At the same time, we would pursue an upside through various initiatives to improve our quality such as transformation of asset portfolio.

Q2. Please tell us the largest risk assumed under the current uncertain environment.

A2. I believe the largest risk which is hard to control is the geo-political risk such as issues related to North Korea.

Q3. Please tell us what you would like to realize through the introduction of group-wide Business Units.

A3. We introduced group-wide Business Units and CxO System in April 2017.

Before that, the management strategy of SMFG was rather determined mainly from the viewpoint of SMBC. Going forward, we will alter our way of management from the previous “hub-and-spoke” model, which centralizes SMBC to promote its collaboration with other group companies, to a “chain” model, which pursues direct mutual synergies among the group companies and strengthen group-wide management.

As to the group-wide Business Units, we decided to introduce the system after a year of thorough discussion. This idea came from my experience of serving as the president of SMBC for six years, where I have come to think that it is necessary to form Business Units across group companies and to integrate the management strategy in order to enhance group synergies even more than before and strengthen profitability.

Q4. Compared with peers, SMFG has a smaller trust banking business and U.S. operation. Please tell us your thoughts on whether to expand these business areas organically or inorganically by measures such as acquisitions.

A4. We aim to become a financial institution well received by investors by focusing on improving capital, asset and cost efficiencies and on profitability. This idea is represented in the word “Discipline” in the Medium-Term Management Plan. The business areas defined as “Build” in the seven core business areas are still small, but have significant growth potential. We will aim to expand these business areas by comparing and considering whether to develop them organically or make acquisitions to buy time.

Q5. Looking at the targets of the Medium-Term Management Plan, I had the impression that there were no words that indicated “growth”. As shareholders, we would like to see “growth”. Please tell us your thoughts about this.

A5. The Medium-Term Management Plan was formulated with a concept of becoming a high quality financial group while achieving sustained growth of bottom line earnings. Our current basic management policy focuses on growing our bottom line profit steadily by controlling capital, asset and cost efficiencies to return to our shareholders. Once the business environment turns favorable, we would certainly pursue topline profit growth too. We would like to emphasize

that we are seeking for growth.

Q6. Please tell us how the target dividend payout ratio of 40% was set, and the outlook of the dividend payout ratio, given that the total payout ratios in some international financial institutions exceed 100%.

A6. In announcing this Medium-Term Management Plan, we wanted to show clearly our policy to “enhance shareholder returns”, and therefore, we raised the target of the dividend payout ratio from 30% to 40%. We decided to adopt a progressive dividend policy and target dividend payout ratio of 40% through discussions that we wanted to reward our shareholders through returns even when the accumulation of capital is a priority in light of tightening international financial regulations. I am aware that there are western financial institutions whose total payout ratios exceed 100%, but we are still at the stage of accumulating capital.

Q7. Please give us your thoughts of enhancing the wholesale securities business.

A7. SMBC Nikko securities has expanded its capability through reinforcing its ability in many business areas to provide various services such as the underwriting of corporate bonds, M&A and derivatives to Japanese and Global companies. For example, relationship management team of SMBC and the fixed income team of SMBC Nikko securities are collaborating very well. I believe we will be able to support customers in many more business areas.