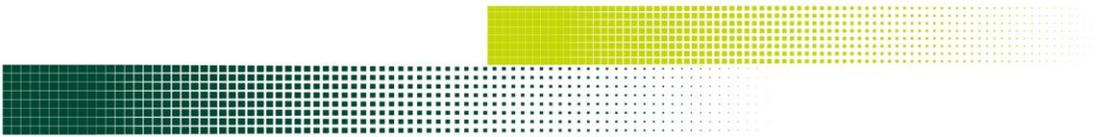


# SMBC Group IR Day

June 20<sup>th</sup>, 2018



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,” “believe,” “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; incurrence of significant credit-related costs; our ability to successfully implement our business strategy through our subsidiaries, affiliates and alliance partners; and exposure to new risks as we expand the scope of our business. 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 our earnings press releases, for a more detailed description of the risks and uncertainties that may affect our financial conditions and our operating results, and investors’ decisions.

## Definitions

- Consolidated : SMFG consolidated
- Non-consolidated : SMBC non-consolidated
- SMFG : Sumitomo Mitsui Financial Group, Inc.
- SMBC : Sumitomo Mitsui Banking Corporation
- SMBC Trust : SMBC Trust Bank
- SMFL : Sumitomo Mitsui Finance and Leasing
- SMBC Nikko : SMBC Nikko Securities
- SMCC : Sumitomo Mitsui Card Company
- SMBCCF : SMBC Consumer Finance
- SMAM : Sumitomo Mitsui Asset Management
- SMBCAC : SMBC Aviation Capital
- Retail business unit (RT) : Domestic retail and SME businesses  
SMBC (RT), SMBC Nikko (RT), SMCC, Cedyna, SMBCCF, others
- Wholesale business unit (WS) : Domestic large/mid-size corporation business  
SMBC (WS), SMBC Nikko (WS), SMBC Trust (WS), SMFL (Domestic), others
- International business unit (Inter.) :  
SMBC (Inter.), SMBC Nikko (Inter.), SMBC Trust (Inter.), SMFL (Inter.), others
- Global markets business unit (GM) : Market / Treasury related businesses  
SMBC (Treasury), SMBC Nikko (Product), others
- Large corporations : Global Corporate Banking Division
- Mid-sized corporations & SMEs : Corporate Banking Division (CBD) and SMEs covered by Retail Banking Unit
- Exchange rates(TTM)

	Mar.17	Mar.18
USD	JPY 112.19	JPY 106.25
EUR	JPY 119.84	JPY 130.73



# Retail Business Unit

Naoki Tamura, Senior Managing Executive Officer

## Progress of Medium-Term Management Plan / Management policy

### Progress of Medium-Term Management Plan

- Initiatives : Steady progress overall
- Financial results : Considerably higher than the previous year

<b>Wealth management</b>	<ul style="list-style-type: none"> <li>✓ Steady increase in stock-based assets</li> <li>✓ Penetration of customer-oriented wealth management business which focuses on medium- to long-term diversified investments</li> </ul>
<b>Retail branch reorganization</b>	<ul style="list-style-type: none"> <li>✓ Completed transformation of 103 branches to next-generation branches and centralization of back-office operations of 134 offices</li> <li>✓ Improvement of customer convenience and enhancement of consulting capability through digitalization</li> </ul>

### Net business profit / ROE / RWA

Unit: JPY bn	FY3/18	YoY <sup>*1</sup>
Gross profit	1,311.5	+34.2
Expenses	1,027.5	+16.1
Overhead ratio	78.3%	(0.8)%
Others	15.5	+3.3
<b>Net business profit</b>	<b>299.5</b>	<b>+21.4</b>
ROE <sup>*2</sup>	7.5%	-
RWA (JPY tn) <sup>*3</sup>	13.8	-

### Management policy to improve ROE

#### Steady implementation of the Medium-Term Management Plan

- Establish the wealth management business and develop business by customer segment
- Implement the consumer finance business strategy based on changes in the business environment
- Initiatives toward cost structural reform
  - ✓ Retail branch reorganization
  - ✓ Business process reform through digitalization

#### New strategies to respond to the changes in the environment

- Development of a medium-term strategy based on the advancement of cashless payment and digitalization

### KPI

	FY3/18	YoY
Balance of stock-based assets (banks and securities) <sup>*4</sup>	JPY 11.9 tn	+JPY 1.1 tn
Credit card sales handled	JPY 16.0 tn	+JPY 1.6 tn
Utilization rate for digital channels <sup>*5</sup>	22.7%	+5%
Balance of card loans (groupwide)	JPY 1.78 tn	+JPY 0.02 tn
Rent reduction effect from Retail branch reorganization	JPY (3.06) bn	—

<sup>\*1</sup> After adjustments of the changes of interest rates and exchange rates

<sup>\*2</sup> Managerial accounting basis with RWA calculated assuming Basel III reforms are finalized. Excludes impact from the provision for losses on interest repayments and the cost from branch reorganization <sup>\*3</sup> Basel III transitional basis

<sup>\*4</sup> Investment products, such as investment trusts, fund wraps, and foreign currency deposits <sup>\*5</sup> Clients using digital channels / (clients using physical branches + clients using digital channels)

- Starting with the progress of the Medium-Term Management Plan, my view is that we made steady progress overall with initiatives implemented in FY3/18.
- For example, in the wealth management business, we have been working on a customer-oriented approach which focuses on medium- to long-term diversified investments for the past few years. This business model is now rooted in our sales offices, leading to a steady increase in assets that produce recurring income, i.e. stock-based assets.
- In retail branch reorganization, 25% of the branches have already been transformed into next-generation branches and back-office operations of 134 offices have been centralized.
- As you can see from the figures on the right hand side, our financial results also improved from the previous fiscal year with the help of favorable market conditions throughout the year.
- Moving on to our management policy going forward, we will continue to implement the initiatives of the Medium-Term Management Plan with no changes to our FY3/18 strategies.
- However, we will formulate new strategies and put them into action for businesses such as cashless payments, whose operating environment is changing dramatically.
- In terms of the earnings performance, we forecast lower profits assuming that market conditions will not be as favorable as in FY3/18. However, considering positive factors for profits such as the increasing balance of stock-based assets, and growth of the credit card business, we believe that we could achieve higher profits depending on market conditions.
- I will now go into more detail by each business.

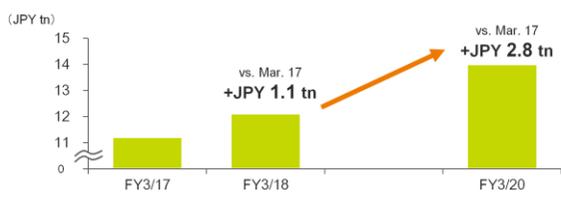
## Wealth management business

- Pursue a customer-oriented wealth management business which focuses on medium-to long-term diversified investments
- Strengthen the development of business by customer segment under the bank-securities integration strategy

### Establishment of the wealth management business

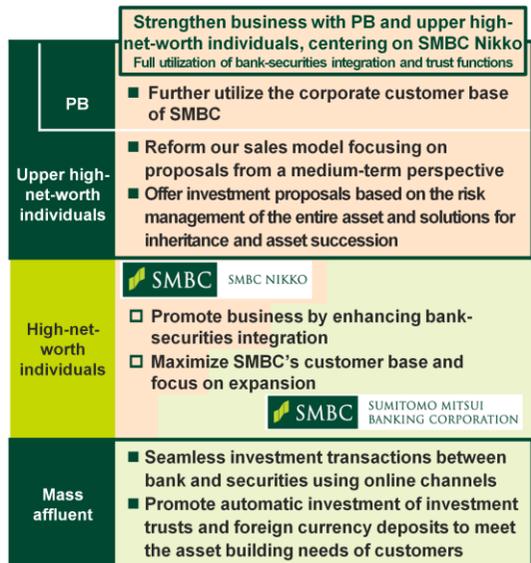
- Offer products which focus on medium- to long-term diversified investments
  - ✓ Reinforce medium- to long-term diversified investment product / services
  - ✓ Approach customers' total financial assets, including assets in other banks and companies
- Cultivate new customers and acquire new funds
  - ✓ Strengthen initiatives for corporate owners
  - ✓ Upgrade the over-the-counter consulting services
- Strengthen ability to respond to inheritance and business succession needs
  - ✓ Position inheritance consulting as one of the core businesses

### Balance of stock-based assets\* (SMBC+SMBC Nikko)



\* Market value of investment products, such as investment trusts, fund wraps, and foreign currency deposits

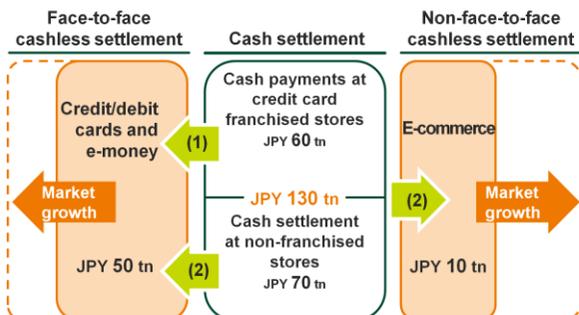
### Development of business by customer segment



- First is the wealth management business. As I have mentioned, we have been working to establish this business for the past few years.
- As shown in the graph on the bottom left, we are focusing on the balance of stock-based assets as a key indicator, such as investment trusts, fund wraps, and foreign currency deposits. They increased by ¥1.1 trillion year-on-year in FY3/18.
- We are promoting the wealth management business to respond to our customers' demand to protect their financial assets and offer a sustainable, customer-oriented business with investment proposals that focus on medium- to long-term diversified investments. It also makes sense from the management perspective, because it improves earnings stability.
- The share of stock-based income to income related to the wealth management business has increased from around 15% a few years ago to over 20%. Our goal is to make it around 25% by the final year of the Medium-Term Management Plan.
- Turning to the right hand side, we will strengthen business by customer segment through the bank-securities integration strategy.
- We have steadily been establishing business with the customer segment of high net-worth individuals, shown in the middle of the chart, through bank-securities integration initiatives. However, we believe we could further develop bank-securities integration in our businesses with customer segments of the upper high-net-worth individuals, including PB, at the top of the chart, and the mass affluent, shown at the bottom of the chart.
- In doing business with customer segments of PB and upper high-net-worth individuals (including corporate owners), we will further utilize the corporate customer base of SMBC, and thereby strengthen to support their needs. This will be done through the integrated team of bank, securities and trust with SMBC Nikko's PB unit playing the central role.
- We will also strengthen business with the customer segment of mass affluent by realizing seamless investment transactions between SMBC and SMBC Nikko using online channels.

- Cashless payment: Promote cashless payment in Japan through comprehensive initiatives for both business operators and end-users
- Consumer finance: Secure bottom line profit by reinforcing control of expense / credit cost while meeting the healthy financing needs of customers on a group-wide basis

Cashless payment



- (1) Strengthen services to end-users
  - ✓ Convenient: Able to pay at anytime, anywhere, or in any way you like
  - ✓ Safe: Able to control payment
  - ✓ Beneficial: Able to obtain group-wide points, etc.
- (2) Establish a next-generation payment platform
  - ✓ Support all cashless payment needs
  - ✓ Increase the market share of franchisees by leveraging price competitiveness
  - ✓ Provide solutions using payment data

Consumer finance

Card loan balance (group basis)



- Strengthen customer acquisition on a group-wide basis
  - ✓ Efficient allocation of advertising and promotional resources
- Reduce expenses on a group-wide basis
  - ✓ SMBC and SMBC Mobit to reduce the number of loan application machines
  - ✓ Digital chatbot service
- Strengthen credit cost control through advanced screening and credit management
  - ✓ Stricter credit standards and continuous customer counseling
  - ✓ Upgrade credit models using group-owned data

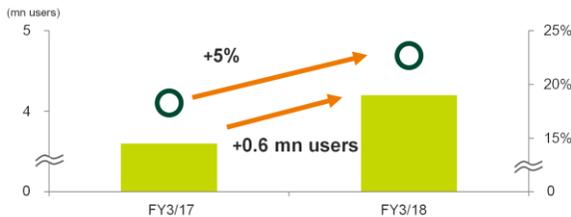
- At the Investors Meeting presentation in May 2018, we explained in detail our cashless payment strategy, which is a core strategy of our payment business. Here, I will outline how we see the cashless payment market developing.
- The face-to-face cashless payment market is worth ¥50 trillion, while cash payment in credit card franchised stores where (a) credit card payment is available is worth an estimated ¥60 trillion, and (b) credit card payment is not available is worth ¥70 trillion. Therefore, the cash payment market is said to be worth ¥130 trillion in total.
- We are targeting this ¥130 trillion market by strengthening services for both end users and business operators so that we can further increase our market share.
- Next, we look at the consumer finance business.
- The graph shows the trend of the card loan outstanding balance broken down by entity. SMBC’s card loan balance decreased year-on-year in FY3/18 due to tougher regulations on bank card loans, but group companies with brands of Mobit and Promise steadily increased their card loan balances and as a group, the outstanding balance has increased by around ¥20 billion.
- In FY3/19, we will allocate a large share of our advertising and promotional budget to SMBCCF and SMBC Mobit to ensure that we could capture the growth of the brisk consumer finance market. We will also work to lower expenses on a group-wide basis taking measures such as reducing the number of loan application machines in collaboration between SMBC and SMBC Mobit.

## Retail branch reorganization

- Enhance customer convenience and reduce cost through digitalization
- Strengthen consulting services for upper high-net-worth individuals at retail branches

### Initiatives toward digitalization

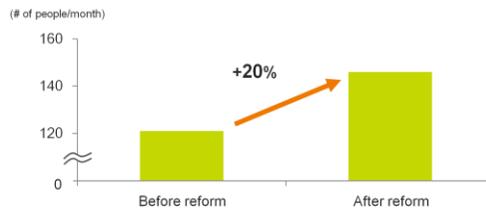
#### # of SMBC Direct users<sup>\*1</sup>/utilization rate of digital channels<sup>\*2</sup>



\*1 Number of customers who have logged in SMBC Direct at least once every six months  
\*2 Clients using digital channels / (clients using physical branches + clients using digital channels)

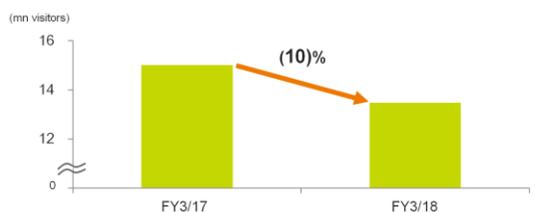
### Strengthening consulting services for high-net-worth individuals at retail branches

#### # of high-net-worth individuals visiting next-generation branches (1H, FY3/18)



Note: Number of visitors to branches with a deposit of 25 million yen or more

### Number of high counter\* visitors (cumulative)



\* Service counter that handles simple administrative procedures such as bank transfers and money exchanges

### Initiatives to reform cost structure

	FY3/18 results	FY3/19 target	...	FY3/22 target
Reduction of clerical staff by improving efficiency	JPY 0.7 bn	JPY 2.3 bn		JPY 10.0 bn
Reduction of rent due to smaller branch floor space, etc.	JPY 1.6 bn	JPY 5.2 bn		JPY 10.0 bn
Ripple effects on operating expenses	JPY 0.8 bn	JPY 4.1 bn		JPY 10.0 bn
<b>Total</b>	<b>JPY 3.1 bn</b>	<b>JPY 11.6 bn</b>		<b>JPY 30.0 bn</b>

6

- And finally, I will explain about retail branch reorganization.
- In FY3/18, we transformed 103 branches into next-generation branches. The objectives of retail branch reorganization are to enhance customer convenience and reduce cost through digitalization. We are showing our progress towards digitalization on the left hand side.
- From FY3/18, our Internet banking service, “SMBC Direct” is provided as a standard service for all newly opened saving accounts, and following the experience of European and American banks, we have been making solid and sustained efforts to increase the use of Internet banking by assigning employees to show customers visiting retail branches how to execute transactions using their smartphones.
- As a result, the number of users and the utilization rate of our Internet banking service increased sharply, while the number of customers coming to branches for simple administrative banking services, decreased by 10% in a year.
- We will continue with these actions in a solid and sustained manner in FY3/19, as well as offering free fund transfers among SMBC accounts using SMBC Direct, improve Internet banking features, and conduct a far-reaching review of our apps from a user interface/user experience perspective.
- The other objective of retail branch reorganization is to strengthen consulting services for high-net-worth individuals at retail branches.
- As a result of transforming to next-generation branches equipped with spacious booths where, unlike traditional bank branches, individual customers can be consulted with us in a relaxed manner, the number of high-net-worth individuals visiting these reformed branches increased by 20%.
- Going forward, we will execute retail branch reorganization as quickly as possible while paying close attention to the voices of our customers.

## (Ref) Next-generation branches

### (Ref) Branches exclusive to individuals (Nakano Sakaue)

- Improved efficiency of personnel/space by aggregating administration of corporate clients to another branch
- Creating an atmosphere where customers be consulted comfortably



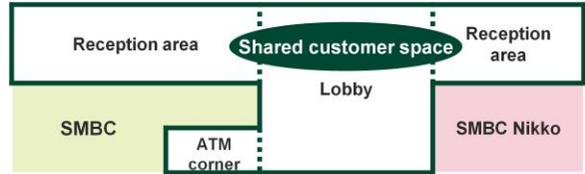
### (Ref) Digital space (Shinjuku Branch)

- A dedicated area where digital transactions are conducted



### (Ref) Cost reduction at group shared branches (Akasaka Branch)

Rent reduction effect	JPY 119 mn
Total space	(36)%
Customer space	+3%



### (Ref) Cost reduction by relocation (Aoyama Branch)

Rent reduction effect	JPY 420 mn
Total space	(29)%
Customer space	+8%



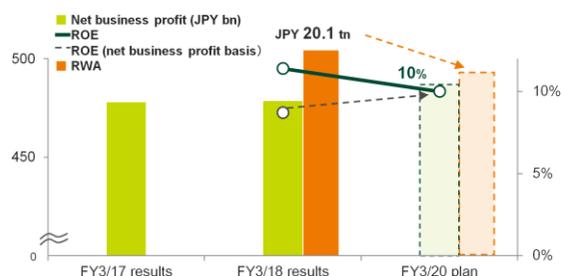
- Here are some examples of retail branch reorganization.
- On the top left is Nakano Sakaue branch. By transferring the transactions of corporate clients to Shinjuku-Nishiguchi branch, we turned Nakano Sakaue branch into a branch exclusive for individuals, with plenty of space for customers to take their time to consult with us. Situated on the 11<sup>th</sup> floor of an office building, customers can also enjoy the excellent view.
- On the bottom left is an example of a branch with “Digital Space”, where digital transactions can be conducted easily at any time. In this area, as I mentioned earlier, our employees are explaining to customers visiting the branch how to make transactions online.
- Akasaka branch is shown on the top right. SMBC and SMBC Nikko occupy the same branch and share the reception area for an efficient use of floor space that leads to cost reduction.
- On the bottom right is Aoyama branch, relocated from the prime location on Aoyama-dori Street to Kotto-dori Street, occupying the second and third floor of the building. In this case, we intended to reduce cost and expand customer space at the same time by minimizing back office area for administration and reduced the total space by 29%.
- In this way, we will continue with our retail branch reorganization and plan to transform all retail branches into next-generation branches by the end of FY3/20.

# Wholesale Business Unit

Manabu Narita, Deputy President and Executive Officer

Progress of Medium-Term Management Plan

Net business profit and ROE were solid by enhancing the asset-light businesses<sup>1</sup> and controlling RWA



Net business profit / ROE / RWA

Unit: JPY bn	FY3/18	YoY <sup>2</sup>
Gross profit	772.9	(6.7)
Expenses	347.8	+1.6
Overhead ratio	45.0%	+0.6%
Others	53.4	+8.9
Net business profit	478.5	+0.6
ROE <sup>3</sup>	11.4%	-
RWA (JPY tn) <sup>4</sup>	20.1	-

Management policy to improve ROE

Sustainable increase of net business profit

- Initiatives toward the market leader strategy
  - Promote asset-light businesses by leveraging the comprehensive strengths of each group company
  - Engage in high-value-added loans that stimulate business
- Business promotion geared toward large global corporates

Appropriate portfolio control

- Continue asset control with greater awareness of profitability
- Reduce RWA by promoting sales of strategic shareholdings

KPI

	FY3/18	YoY
Market share in Japanese corporate bonds (lead arranger)	17.0%	(0.4)%
# of IPO lead arranger deals	No.3	+1 Rank
# of M&A advisory deals	No.1	+1 Rank
# of companies with core earnings	9,036 companies	+341 companies
Increase rate of non-interest income	+4.7%	-

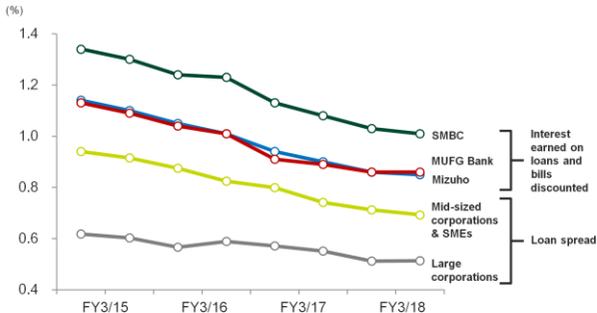
<sup>1</sup> Business that does not use assets such as the transaction business <sup>2</sup> After adjustments of the changes of interest rates and exchange rates <sup>3</sup> Managerial accounting basis with RWA calculated assuming Basel III reforms are finalized <sup>4</sup> Basel III transitional basis

- To start, I will talk about the progress of the Medium-Term Management Plan.
- As you can see on the top left graph, net business profit was steady and the solid green line showing ROE remained at a high level of over 10%. This is due in part to a larger-than-expected reversal of provisions, however, the gray dotted line showing ROE on a net business profit basis after adjustment of provisions and profit from the sales of securities also achieved a high level. We will continue to pursue sustainable growth of net business profit and improve ROE through control of risk-weighted assets.
- Our management policy going forward is shown on the bottom left. We will implement initiatives for sustainable expansion of net business profit such as the market leader strategy, which include the engagement in high value-added loans that stimulate business, aggressive promotion of asset-light business and business with large global corporates by leveraging the comprehensive strengths of each group company.
- When we say “asset-light business”, we mean business that makes profit without the use of risk-weighted assets such as transaction banking, Sales and Trading, and income from group companies. In terms of asset portfolio control, we will continue to carry greater awareness of profitability and reduce risk-weighted assets by promoting sales of strategic shareholdings to further improve ROE.
- Our KPIs are shown on the right hand side. As you can see, results solidly exceeded year-ago levels and are continuing to improve.

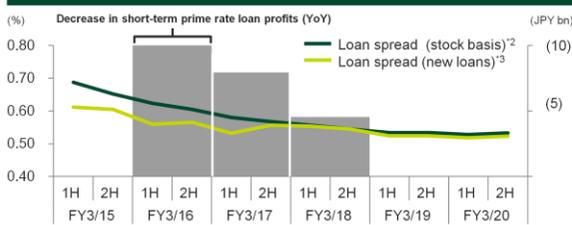
## Interest rate environment/transformation of profit structure of the wholesale business (bank)

- We expect to maintain higher loan spread over the other mega banks, as the decline of the loan spread is showing signs of bottoming out
- With the decline of loan spread ending, we expect that the decrease of interest income on loans, which was a major factor behind the decline in earnings in the wholesale business will come to an end
- Aim to improve ROE by transforming the profit structure and promote asset-light businesses to increase profit

### Interest earned on loans and bills discounted

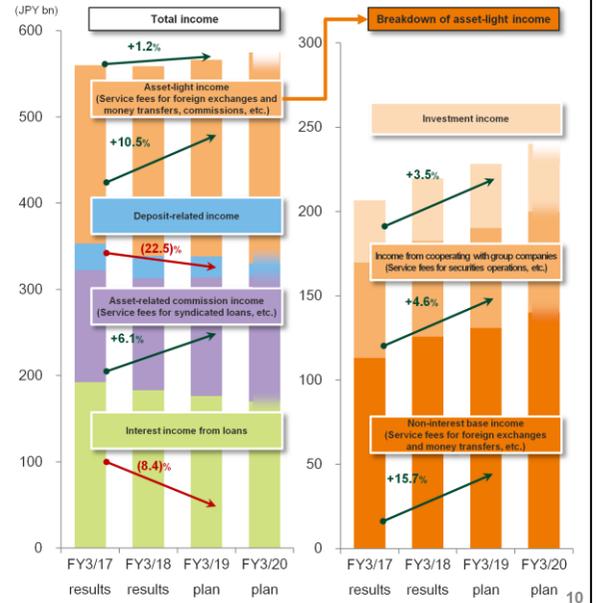


### Trend of loan spread/decrease in short-term prime rate loan profits<sup>1</sup>



<sup>1</sup> Mid-sized corporations & SMEs <sup>2</sup> Loan spread of overall balance  
<sup>3</sup> Loan spread of new loans within the applicable fiscal year

### Transformation of profit structure of the wholesale business (SMBC)



- Next, I will discuss the current interest rate environment.
- On the top left we compare interest earned on loans and bills discounted among the three megabanks in Japan and you can see we have the highest level. The interest earned on loans is declining but the contraction rate of our loan spread for mid-sized corporations and SMEs as well as for large corporations is slowing down every year.
- Also, as shown on the bottom left, there is very limited scope for loan spreads to narrow further, since the loan spread on the outstanding loan balance and the spread on new loans are now almost at the same level. We therefore expect the loan spread to stop contracting in the not-so-distant future. Further, the decline in total interest income on loans is coming to an end since the contraction rate of profit on short-term prime rate loans with generous loan spreads that used to be the bulk of loans to mid-sized corporations and SMEs, has also been slowing down year after year.
- If we could keep this trend going, we believe we could maintain our advantage over other megabanks in terms of interest earned on loans.
- The transformation of the profit structure in SMBC is shown on the right hand side. We are offsetting the decline in interest income on loans by increasing asset-related income such as arranger fees for syndicated loans and asset-light income shown at the very top. We plan a 1.2% increase in total income in FY3/19 versus FY3/17.
- The breakdown of asset-light income is shown on the right hand side. We forecast a 10.5% increase in asset-light income overall, including non-interest base income such as stable service fees from foreign exchange and money transfers, commissions, etc., income from cooperating with group companies, and investment income.
- We are seeking to improve ROE by promoting businesses that do not rely on risk-weighted assets.

## Market leader strategy

- Aim to be a market leader by centering on asset-light businesses and promote eight key business areas that contribute to customer growth
- In addition to strengthening traditional financial fields, take on new challenges that contribute to medium- to long-term growth by cooperating with group companies across business units / entities and implementing strategies of other business units (Sales & Trading, etc.)

### A Promote asset-light businesses

### B Increase assets (high-value-added loans, etc.)

	Strategy	Major KPIs and two-year increases	Category	Leading solutions provider	Cooperation with other business units
Become clients' business partner	1. Venture approach	● # of IPO lead arranger deals No.3 → No.1	A	SMBC SUMITOMO MITSUBISHI BANKING CORPORATION SMBC SMBC NIKKOD 三井住友銀行グループ SMBCベンチャーキャピタル	RT Inter.
	2. Turn around solution	● # of M&A advisory deals No.1 → No.1	A B	SMBC SUMITOMO MITSUBISHI BANKING CORPORATION SMBC SMBC NIKKOD 三井住友銀行グループ SMBCコンサルディング	Inter.
	3. Cash management solution	● # of companies with transaction business +850 companies	A	SMBC SUMITOMO MITSUBISHI BANKING CORPORATION SMBC SMBC NIKKOD 三井住友銀行グループ SMBCファイナンスサービス	Inter. GM
	4. CRE solution	● # of CRE proposals +100 companies ● # of real estate brokerage deals +50 Companies	A B	SMBC SUMITOMO MITSUBISHI BANKING CORPORATION SMBC SMBC NIKKOD SMBC SMBC TRUST BANK SMF Think beyond, Act now	Inter.
	5. Owner approach	● Executed amount of successions related loans + JPY 25 bn ● Entrustment of testamentary trust and inheritance disposition +140 Companies	A B	SMBC SUMITOMO MITSUBISHI BANKING CORPORATION SMBC SMBC NIKKOD SMBC SMBC TRUST BANK	RT
Respond to clients' change in environment	6. HR solution	● # of HR solution proposals +500 Companies ● # of DC customers acquired +20,000	A	SMBC SUMITOMO MITSUBISHI BANKING CORPORATION SMBC SMBC NIKKOD 三井住友銀行グループ SMBC SUMITOMO MITSUBISHI BANKING CORPORATION SMBC SMBC TRUST BANK 日本研究機構	RT
	7. Digital transformation	● # of NCore contracts +105 contracts	A	SMBC SUMITOMO MITSUBISHI BANKING CORPORATION SMBC SMBC NIKKOD NC Core SMBC GMO PAYMENT	
Create innovation with clients	8. Smart mobility innovation	● Creation of pipeline	New Category	SMBC SUMITOMO MITSUBISHI BANKING CORPORATION SMBC SMBC NIKKOD 日本研究機構 Polarify	Inter.

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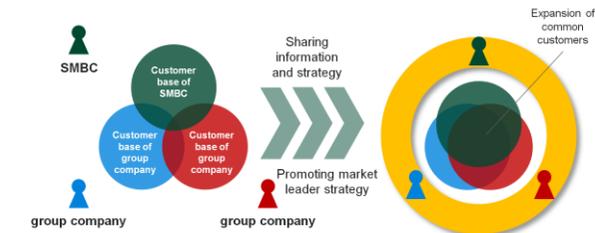
- I will now move on to our market leader strategy, which underpins the transformation of our profit structure.
- We have identified eight key business areas that contribute to customers' growth and aim to be a market leader in these areas.
- Through the initiatives to become a market leader, we believe that we could promote asset-light businesses at the same time, as shown under "Category" in the center column.
- More specifically, in addition to the initiatives 1) to 5) that fall into our mainstay financial businesses, as a business partner of our customers, we will also harness organic synergies in the initiatives 6) and 7), by cooperating with group companies across business units and entities and through collaboration with strategic initiatives of other business units. Furthermore, in initiative 8), we will take on new challenges that contribute to medium- and long-term growth, going beyond traditional financial businesses.
- We believe our front office marketing staff will become keenly aware of the group's collective strengths through the market leader strategy.

## Deepen business unit operations

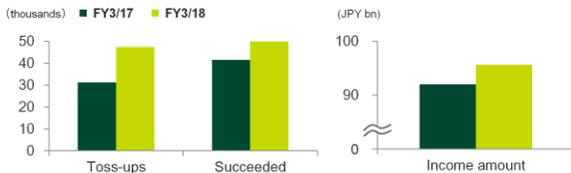
- Maximize leverage of the client base of SMBC Group and provide group-based solutions that utilize customer information
- With the information sharing agreements from over 30,000 customers obtained, the number of toss-ups among group companies, the number of toss-ups that led to actual businesses, and the income from these activities steadily increased
- In the wholesale business unit as a whole, we aim to increase profits in SMBC Nikko, SMFL, and SMBC Trust, while maintaining the current level of profits in SMBC

### Utilization of customer base

- The total customer base of SMBC Group companies is wide-ranging
- Acquired information-sharing agreement from over 30,000 customers and established a system to share information within the group
- Sharing customer information throughout the group from the time of formulating strategy to provide optimal solutions to our customers

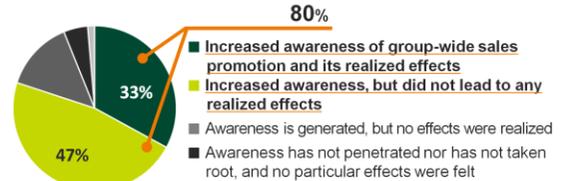


- Increase in the number of toss-ups, the number of toss-ups succeeded and income amount

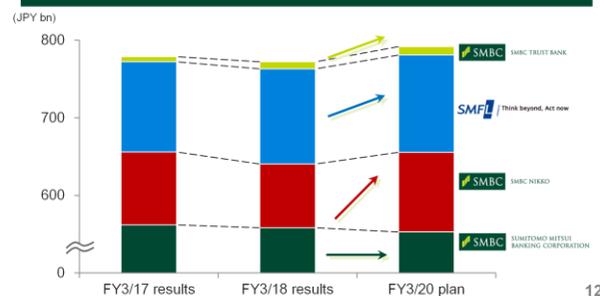


### Change in awareness

- 80% answered "increased awareness of sales promotion on a group-wide basis"
- On the other hand, only about 30% of the respondents also felt the effect



### Earnings growth plan for the wholesale business unit



- I will now explain how we have formed a structure that encourages cooperation within the group. We believe this is the real effect of introducing group-wide business units.
- To maximize the client base of SMBC Group, we provided a framework for sharing information among group companies. In the second half of FY3/18, we were able to share customer information within the group by getting consent from more than 30,000 customers. It also enabled us to utilize information as a group from the early stage of formulating strategy to provide the optimal solution for our customers. My impression is that speed, variety, and the quality of group-based solutions have improved significantly.
- As shown on the bottom left, the number of group-wide referrals of clients (toss-ups), the number of toss-ups succeeded, and income amount have all steadily increased year-on-year, indicating that we have made solid progress.
- The results of a survey for employees are presented on the top right, with 80% of respondents answering that there was a steady increase in the awareness of sales promotion on a group-wide basis. In other words, their awareness per se has been raised. However, 70% also commented that they have not noticed a measurable effect of group-based business yet. I believe this is partly because business referrals (toss-ups) take time to be monetized, resulting in a discrepancy from the perception of effectiveness on the part of managers/employees. Yet, I believe the advantages of group-wide business units are to become more evident going forward.
- Accordingly, as shown on the bottom right, the Wholesale Business Unit will aim for earnings growth as a whole by harnessing group-wide business units, adding, as growth drivers, SMBC Nikko, SMFL, and SMBC Trust on top of the customer base of SMBC.

## Initiatives by entity

- Acquire investment banking deals from large corporates by sharing strategy between SMBC and SMBC Nikko
- SMBC Trust enhanced real estate-related functions to steadily increase profit and is expected to catch up with competitors
- Being committed to improve profitability, SMFL improved loan spread and increased profitability. SMFL also worked to boost profit through collaboration with each entity of the business unit

### SMBC

### SMBC Nikko

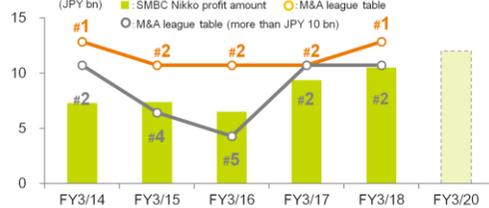
#### ■ Approach toward large global corporates

- ✓ Strategy planning through common account plans between bank and securities
- ✓ Strategic increase of assets
- ✓ Strengthen functions to acquire investment banking deals

#### League tables



#### M&A



### SMBC Trust

#### ■ Real estate brokerage business has grown steadily since its establishment

#### ■ Stable growth going forward through strategic development of structures

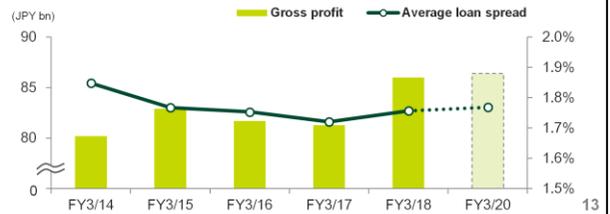
#### Real estate brokerage



### SMFL

#### ■ Record high profits due to improvement in spreads

#### ■ Cooperate with partner Sumitomo Corp. through reorganization



- I will now outline the initiatives of each entity that is a growth driver of the Wholesale Business Unit.
- SMBC Nikko will strengthen its approach to large global corporates by leveraging bank-securities integration. On the left hand side you will see its ranking on the league tables of equity and corporate bonds. We believe that their equity capital markets (ECM) business in particular has further scope for growth by utilizing SMBC's customer base, and this is something we certainly need to achieve. For example, there was a case where we were able to get mandate of book-runner status for a large convertible bond (CB) issuance by a major non-ferrous metal producer through discussions of their financial strategy, which SMBC and SMBC Nikko collaborated to proceed on the arrival of the redemption date of hybrid finance.
- Our M&A business shown on the bottom left is also steadily gaining traction. We are moving up on the M&A league table in terms of the number of deals worth over ¥10 billion. For example, we won carve-out deals from multiple major consumer electronics manufacturers of which we are not the main bank, and made substantial income on a group basis from FA, LBO finance, transaction banking and FX transactions. We are now formulating common account plans as a group and we are confident in making strategic allocation of our assets and providing high-quality investment banking services. These group-wide initiatives have been proved to be effective.
- On the top right is a summary of SMBC Trust. We started from scratch in establishing a trust bank in FY3/14. The real estate brokerage business has grown steadily since, both in terms of gross profit and the number of transactions. Although we are still smaller than the other mega trust banks, we have completed preparations to catch up with them, and by gathering our group companies' expertise and information, we plan to bridge the gap of around ¥20 billion in gross profit as quickly as possible.
- SMFL is shown on the bottom right. SMFL is already a leading company in the leasing industry, but through reorganization of our leasing business, we plan to strengthen it even further by starting new businesses in alliance with Sumitomo Corporation, and integrating with SMFL Capital acquired from GE Japan.

## Portfolio management (RWA control, profitability improvement, and strategic shareholdings)

- Continue appropriate RWA control by selling strategic shareholdings and rebalancing the loan portfolio while maintaining the outstanding of loans
- Introduce business performance assessment criteria to improve profitability and raise awareness of profitability at front offices
- Steady progress in reduction of strategic shareholdings. Achieve the target by utilizing a variety of methods

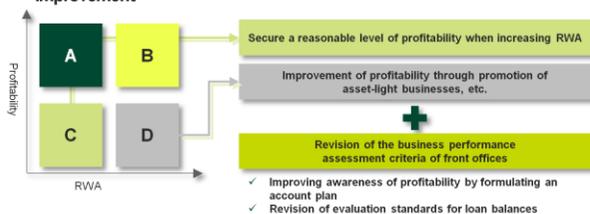
### RWA control

- Reduce RWA by selling strategic shareholdings
- Strategic increase of RWA into large global corporates and high-value-added loans generated through portfolio improvement



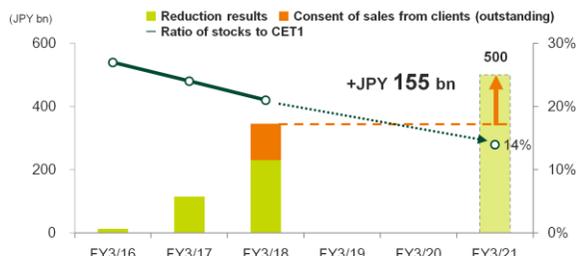
### Improving profitability

- Establish basic policies for each segment and clarify areas for profitability improvement



### Strategic shareholdings

- Consent of sales from customers and reduction are progressing as planned and are regarded as an important management issue



- Increase consent of sales from clients and reduction through a variety of sales methods tailored to customers' capital policies by utilizing SMBC Nikko's sales and consulting capabilities



- Finally, let's look at portfolio management.
- Trends in the loan balance and risk-weighted assets of FY3/18 are shown on the top left. While maintaining the loan balance, we plan to reduce risk-weighted assets by selling strategic shareholdings. We plan to strategically reallocate risk-weighted assets generated through portfolio improvement to large global corporates and to high value-added loans by continuing appropriate risk-weighted asset control.
- The bottom left shows a concept diagram of profitability improvement. We will identify segments that require improvement in profitability and risk-weighted assets, and establish basic policies for each segment.
- For profitability improvement, in addition to promoting asset-light businesses, we introduced business performance assessment criteria that evaluates initiatives in front offices to improve profitability. For example, we have stopped valuing the volume of unprofitable loans. We will improve awareness of profitability by formulating account plans and revise business performance assessment criteria to maximize the possibility of improving profitability.
- Reduction of strategic shareholdings is shown on the right hand side. We have made good progress, and plan to reduce another ¥155 billion in the remaining three years. We will continue to reduce these shareholdings by making informed decisions on whether to hold or sell and by monitoring changes in customers' circumstances in compliance with the corporate governance code, which was revised in June 2018.
- As shown on the bottom right, we have made progress in gaining consent to sell through a variety of sales methods tailored to customers' capital policies. In particular, customers have been impressed by SMBC Nikko's block offer trade service.

# International Business Unit

Masahiko Oshima, Senior Managing Executive Officer

Progress of Medium-Term Management Plan

- Net business profit increased by JPY 31.9 billion from the previous year, and the ROE exceeded the FY3/20 target
- Strong growth in non-asset-related income such as deposits and FX
- Steady progress in key initiatives

Corporate & Investment Banking	<ul style="list-style-type: none"> <li>Promoted cross-selling through bank-securities integration</li> </ul>
Products where we hold strengths	<ul style="list-style-type: none"> <li>Strengthened the asset turnover business (O&amp;D)</li> </ul>
Asia-centric	<ul style="list-style-type: none"> <li>Promoted the TB business</li> </ul>
Disciplined management	<ul style="list-style-type: none"> <li>Increased foreign currency deposits</li> <li>RAF-based credit control</li> </ul>

Management policy to improve ROE

- Increase market share in Corporate & Investment Banking

Raise banking status and promote cross-selling by taking advantage of the strengths of SMBC Group

- Further enhance product / sectors where we hold strengths

Further improve profitability and market presence by turning over assets

- Asia-centric

Steady execution of the Asia core client strategy and the Multi-franchise strategy

- Disciplined business operations

Increase "quality" and "volume" of foreign currency deposits for sustainable growth, and sound portfolio management through RAF

Net business profit / ROE / RWA

Unit: JPY bn	FY3/18	YoY <sup>1</sup>
Gross profit	632.0	+38.8
Expenses	280.7	+23.2
Overhead ratio	44.4%	+1.0%
Others	46.9	+16.3
Net business profit	398.2	+31.9
ROE <sup>2</sup>	10.6%	-
RWA (JPY tn) <sup>3</sup>	21.0	-

KPI

		FY3/20 targets (vs FY3/17)	FY3/18
Bank-securities integration	# of active book runner (securities)	1.5x	1.5x
	# of cross-selling related with securities	2x	3.1x
Asset turnover	# of O&D transactions on focused products	1.5x	2.8x
Asia-centric "Next Stage"	# of key clients in Asia	+15%	+12%
	Non-asset based profit in Asia	+15%	+31%
	Profit from multi-franchise strategy in Indonesia	1.3x	1.02x

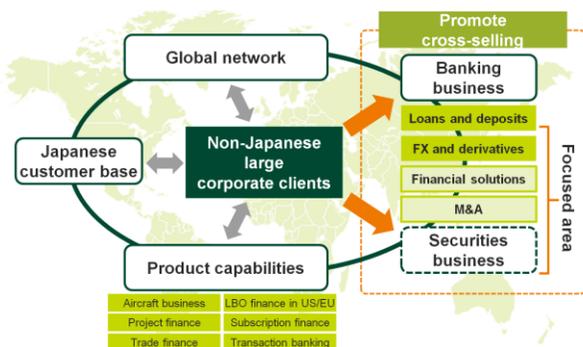
<sup>1</sup> After adjustments of the changes of interest rates and exchange rates <sup>2</sup> Managerial accounting basis with RWA calculated assuming Basel III reforms are finalized. Excludes impact from the mid- to long-term foreign currency funding costs <sup>3</sup> Basel III transitional basis

- I will first discuss the progress of the Medium-Term Management Plan and our management policy going forward.
- In FY3/18, which was the first year of the Medium-Term Management Plan, we were committed to meeting our targets while achieving steady progress with our key initiatives. As a result, net business profit grew sharply by ¥31.9 billion year-on-year to ¥398.2 billion and ROE was 10.6%, exceeding our FY3/20 target of 9%.
- As to the factors contributing to revenue growth, gross profit increased by ¥38.8 billion to ¥632 billion, due to the strong growth in deposit-taking, derivatives, FX and other non-asset related income, offsetting negatives such as the increased cost of foreign currency funding and smaller loan spreads. Although expenses increased by ¥23.2 billion, the overhead ratio improved more than originally targeted to 44.4% as a result of integrating duplicated functions and streamlining personnel deployment. The increased earnings contribution of equity-method affiliates such as The Bank of East Asia was a one-time positive factor.
- For our key initiatives, we made steady progress, and many of the KPIs shown on the bottom right have already surpassed FY3/20 targets.
- Turning to our management policy to improve ROE on the bottom left, we will discuss each point in turn from the next page, but we are confident that we could steadily improve the ROE of the business unit in the medium term by implementing these measures despite the many uncertainties and downside risks in the prevailing market.

## Increase market share in Corporate & Investment Banking

- Raise the banking status with non-Japanese large corporate clients and promote cross-selling by taking advantage of the strengths of SMBC Group
  - ✓ Support non-Japanese corporates by leveraging our global network and customer base in Asia and Japan
  - ✓ Build relationships and promote cross-selling by leveraging our global strengths: project finance, aircraft-related finance, etc.

### Promote business with large corporate clients utilizing our strengths

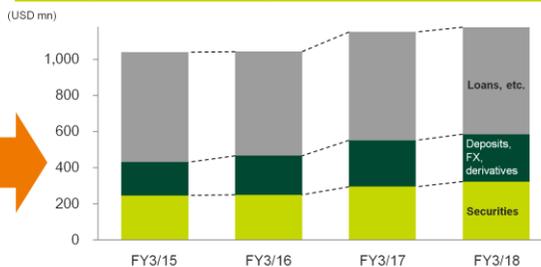


### Examples of cross-selling in FY3/18

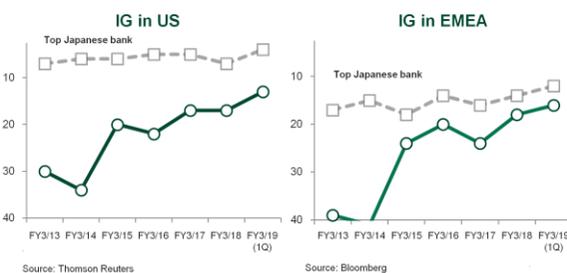
- ✓ **World-class food company**  
Improved the banking status with the parent company by leveraging transactions at its Asian locations
- ✓ **Global energy company**  
Built top relationship through the project finance business and acquired book runner status for corporate bond transactions, etc.

### Revenues by product for non-Japanese large corporate clients in Europe and the U.S.\*

\* Managerial accounting basis.



### DCM League Table



- The first key initiative I would like to explain is the increasing market share in Corporate & Investment Banking.
- The image diagram on the left hand side illustrates how we are, in recent years, establishing our business bases mainly in Asia to extend our network and are steadily building a base for providing multiple financial services through cross-selling mainly in the commercial banking business. At the same time, we feel that our global network has gained comparatively higher value after the global financial crisis and European debt crisis led financial institutions in Europe and the U.S. to review their business networks and scale back operations in, or withdraw from emerging economies including Asia. Our strength is that we could support customers by leveraging our extensive global network and we are expanding business with both Japanese and non-Japanese corporate clients including European and U.S. companies that operate globally.
- With our global network, we will raise our business status with non-Japanese large corporate clients and promote cross-selling by taking advantage of globally competitive products such as aircraft-related finance and project finance.
- Let me refer to some examples. First is the case where we were able to improve our trade status with a world class food company in its home country by providing local business support to their business base in Asia. Second is another good example where we were awarded the book-runner mandate in the issuance of corporate bond from a global energy company by building a good relationship with senior management of the company through the project finance business.
- Through these initiatives, cross-selling with non-Japanese large corporate clients based in North America and Europe has steadily increased, as shown on the top right.
- As you can see in the DCM League Table on the bottom right, we lagged behind the other megabanks in the overseas securities business, which we built almost from scratch after acquiring Nikko Cordial Securities in 2009. However, we have expanded the business in recent years and now regard it as a strategic business area with strong growth potential for SMBC Group. We plan to make full use of our financial solutions consulting capability which we aggressively strengthened in anticipation of customers' corporate events such as M&A and enhance cross-selling as a group.

## Further enhance product / sectors where we hold strengths

- Promote the asset turnover business centering on products where we hold strengths
  - Enhance origination by strategically increasing RWA
  - Strengthen investment proposals and transactions with domestic and overseas investors

Further improve profitability and enhance presence

### Expansion of the O&D business by leveraging our strengths

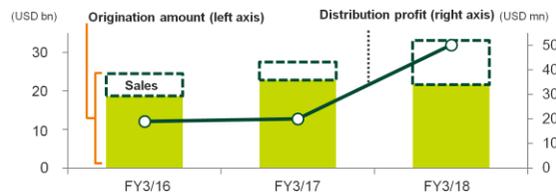


### Products where we hold strengths

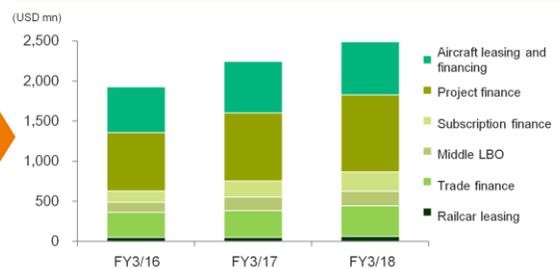


### Origination amount and distribution profit\*

- O&D initiatives
  - Joint investment scheme with Japanese investors targeting LBOs in Europe and the U.S.
  - Origination & Distribution of investment products for aircraft assets, etc.



### Revenues of products where we hold strengths



18

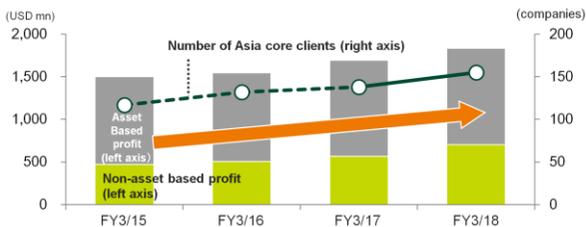
- Next, I will explain about “further enhancing product / sectors where we hold strengths.”
- In aircraft-related finance, project finance, and other sectors where we have top-tier presence, we seek further improvement in profitability and market presence by harnessing the origination and distribution (O&D) business model.
- We will enhance origination of products by harnessing the strengths of each product while allocating resources (i.e., assets) selectively. At the same time, we will strengthen our marketing and distribution efforts to domestic and overseas investors to fulfill their alternative investment needs, thereby boosting proposals to invest in such originated products.
- In FY3/18, as shown on the top right, origination amount and distribution profit of O&D products grew sharply through proposals to invest in products where we hold strengths, such as joint investment schemes with Japanese and overseas investors targeting LBO in Europe and the U.S. However, there is more work to be done and a lot more that we can do. We are expanding this business by hiring more professionals worldwide and we feel great momentum in this business.
- Turning to the graph on the bottom right, there is solid growth in revenue of products where we hold strengths. We feel that efforts to strengthen these products have proved successful as a robust earnings base of the International Business Unit.

## Asia-centric

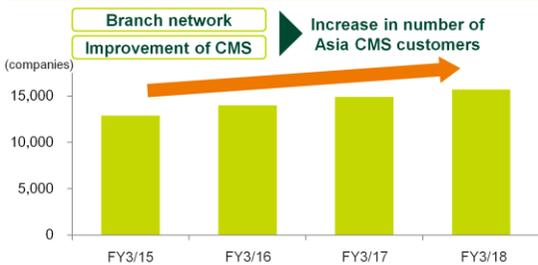
- Steady execution of the decade-long Asian strategy
  - Asia core client strategy: Enhance non-asset based profit and expand customer base centered on transaction banking
  - Multi-franchise strategy: Capture growth of Asia from a medium- to long-term perspective

### Asia core client strategy

#### Profit and number of core clients in Asia



#### Number of Asia CMS customers



### Multi-franchise strategy

#### Started discussions on merger between BTPN and SMBC Indonesia

- Transformation to a full-line commercial bank covering both wholesale and retail operations

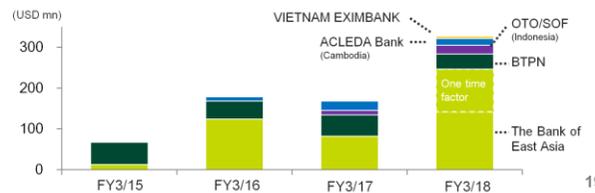
##### Loan ranking in Indonesia

Loan ranking in Indonesia		(IDR tn)	
1	Mandiri	708.0	708.0
2	BRI	694.2	694.2
3	BCA	451.9	451.9
4	BNI	421.4	421.4
5	BTN	184.5	184.5
6	CIMB	178.8	178.8
7	Panin	141.2	141.2
8	Danamon	121.8	121.8
15	BTPN	66.5	66.5
18	SMBC Indonesia	57.7	57.7
			<b>SMBC+BTPN 124.3</b>
8	Danamon	121.8	121.8
9	Maybank	121.8	121.8

- Develop business through various channels

- OTO/SOF, a provider of motorcycle loans and automobile loans;
- Investment in a government-affiliated financial institution engaged in infrastructure PF; etc.

#### Contribution of investments made in Asia (Net business profit)



- I will now move on to our Asia-centric strategy.
- Shown here are two strategies that are part of our decade-long Asia-centric strategy. The Asia core client strategy targets blue-chip companies in Asia to strengthen our commercial banking business. The multi-franchise strategy, which takes a medium- to long-term perspective, includes strengthening the local retail business.
- First, in the Asia core client strategy, we have expanded our customer base and made solid progress in cross-selling, such as enhancing non-asset based profit centered on transaction banking, as shown in the top left graph.
- In particular, due to our efforts to expand the branch network in Asia and upgrading electronic banking (EB) products, our transaction banking service has been regarded as favorably comparable with those offered by major U.S. and European banks that previously dominated the business. We are making progress in becoming the bank of choice for transactions for many customers in Asia. Greater use of cash management services (CMS) has led to an increase in current deposits, FX, derivatives, and other related transactions, which we consider to be a business area capable of sustained growth.
- Second, in the multi-franchise strategy, we started discussions on a merger between BTPN and SMBC Indonesia as announced in January 2018. We will strengthen the management structure and steadily transform to a full-line commercial bank covering both wholesale and retail operations.
- As shown on the top right, the loan balance after the merger will be around IDR120 trillion (approximately ¥1 trillion), which puts the bank in the top tier of Indonesia's medium-size banks.
- On the bottom right, you can see the contribution of investments made in Asia to net business profit. Although net business profit in FY3/18 includes a one-time factor related to The Bank of East Asia (contribution of booking extraordinary profit from the sale of its subsidiary), it is clear that the contribution to net business profit is increasing steadily even after adjustment of this factor.

## Disciplined business operations

- Foreign currency deposits: Increase both “volume” and “quality” for sustainable growth
- Sound portfolio management through RAF\* management

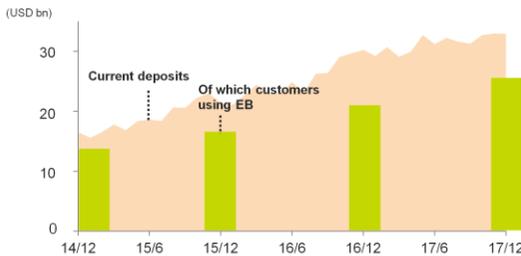
\* Internal control framework formulated based on the risk appetite related to business plans and earnings forecasts, risk management policies, and maximum risk exposure and losses for the purpose of accomplishing management targets

### Foreign currency deposits

#### Foreign currency deposits / coverage ratio

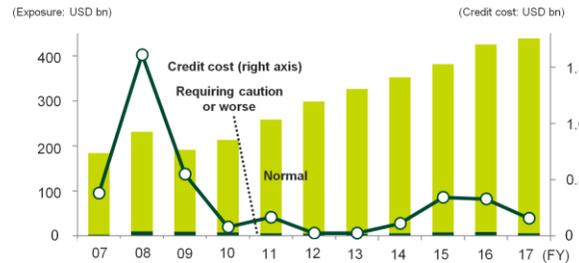


#### Increase in current deposits (CMS, etc.)

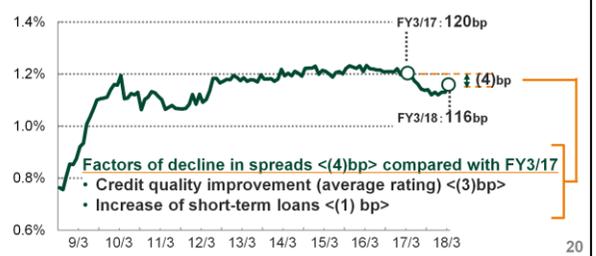


### Credit control

#### Sound portfolio management through RAF management



#### Portfolio management with awareness of loan spread



- And finally, I will explain about “Disciplined business operations.”
- Trends in foreign currency deposits, which form the base for sustained growth, are shown on the top left. In the five years from FY3/14, we put efforts in strengthening deposit-taking, and were able to almost double the deposit balance. The loan to deposit ratio, i.e. foreign currency deposit coverage ratio, is increasing and currently reaching 80%. We are now focusing on both the quality and the volume of deposits.
- For example, trends in current deposits by customers using EB are shown on the bottom left. We are working to increase high quality deposits by capturing the inflow and outflow of funds to secure sticky deposits without large balance fluctuations at times of market disruption or risk-off setting.
- Credit risk management is shown on the top right. There has been no significant credit deterioration and exposure to borrowers requiring caution or worse is kept at a low level. We will continue to maintain sound portfolio under the risk appetite framework (RAF) to keep credit costs tightly under control.
- Loan spread of the International Business Unit is shown on the bottom right. The spread narrowed by 4bps at end-March 2018 compared to end-March 2017, reflecting credit quality improvement and the increase in trade finance and other short-term assets. We will maintain high quality portfolio management with awareness of loan spread amid the ongoing downward pressure on spreads.
- In summary, business has been trending strong in recent months, but we remain constantly aware of various uncertainties such as heightened market volatility and cash outflows mainly from emerging markets amid the Fed tapering and the normalization of ECB monetary policy, as well as fears of a trade war between the U.S. and China spreading elsewhere, geopolitical risk, and the impact of financial regulations. Thereby we will try to become more sensitive to unexpected changes in the business environment, and be nimble and flexible in our management.

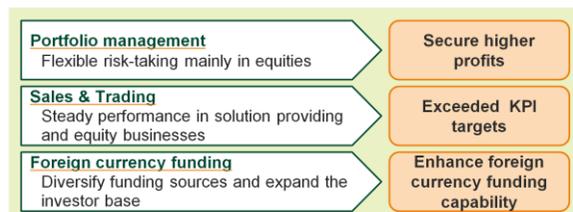
# Global Markets Business Unit

Hiroshi Munemasa, Senior Managing Executive Officer

## Progress of Medium-Term Management Plan / Management policy

### Progress of Medium-Term Management Plan

#### Made steady progress in all of the three core areas



### Management policy to improve ROE

- Establish Sales & Trading as a core business at an early stage while maintaining profitability in portfolio management
- Carry out robust foreign currency B/S management by optimally funding foreign currencies in accordance with the market environment



### Net business profit / ROE / RWA

Unit: JPY bn	FY3/18	YoY <sup>1</sup>
Gross profit	356.2	+6.4
Expenses	53.9	+3.3
Overhead ratio	15.1%	+0.7%
Others	17.5	+4.3
<b>Net business profit</b>	<b>319.8</b>	<b>+7.4</b>
ROE <sup>2</sup>	33.5%	-
RWA (JPY tn) <sup>3</sup>	5.9	-

### KPI

#### Sales & Trading profits



<sup>1</sup> After adjustments for interest rate and exchange rate impacts <sup>2</sup> Managerial accounting basis with RWA calculated assuming Basel III reforms are finalized. Excludes impact from the interest-rate risk associated to the banking account

<sup>3</sup> Basel III transitional basis

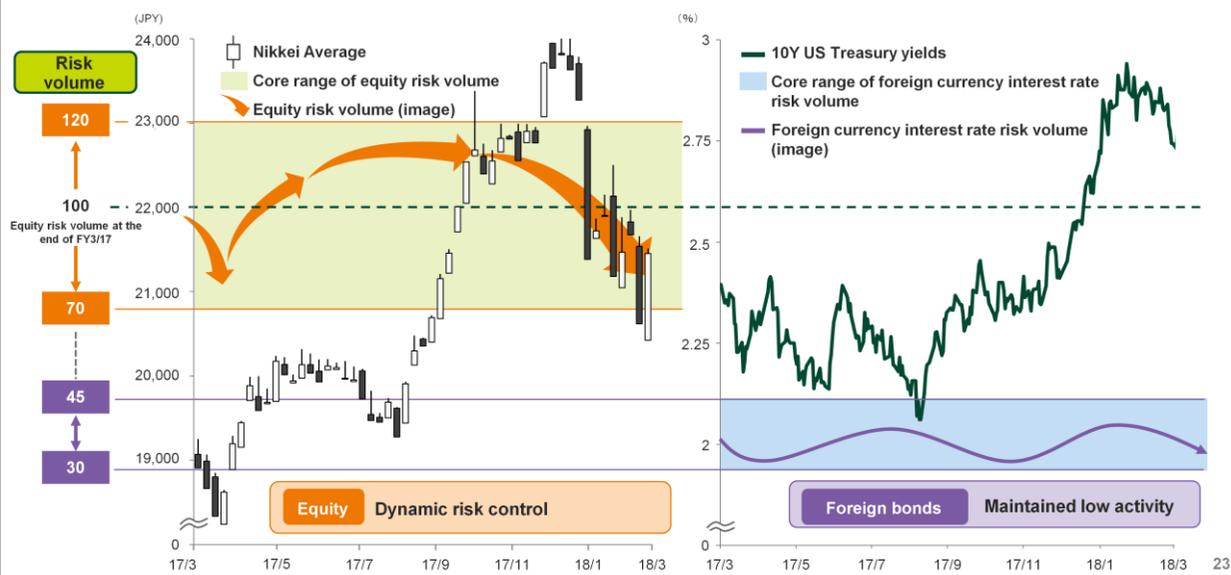
- To summarize the first year of the Medium-Term Management Plan for the Global Markets Business Unit, I can say that we made steady progress in all of the three core areas.
- First is portfolio management. This business makes an income from risk control and risk-taking, mostly in SMBC. In FY3/18, flexible risk-taking centered on equity index-linked investments proved successful, and as a result, year-on-year profit growth and results exceeded our forecast.
- Second is Sales & Trading. This is a business that gains profit by providing market-related services to customers. We started focusing on this business in the current Medium-Term Management Plan. Solutions provided by SMBC and equity business at SMBC Nikko have performed especially well, and as shown on the bottom right, we achieved our KPI targets, with profits up by ¥16 billion year-on-year in FY3/18.
- Third is foreign currency funding. We do not have a special initiative for this business. Rather, it has a back-stage role of supporting the group's foreign currency business and international business from the funding side. We have been working on expanding the investor base and diversifying funding methods, which had certain positive effects in FY3/18.
- Looking ahead to the rest of FY3/19 and FY3/20, our priority is to maintain profitability in our portfolio management. We will also focus on establishing Sales & Trading as a core business. In foreign currency funding, we will continue with our initiatives to develop and secure a strong funding source.
- We made certain progress with our Sales & Trading business in FY3/18, but in FY3/20 (the final year of the Medium-Term Management Plan), we have an ambitious target of increasing Sales & Trading profit by ¥65 billion from FY3/17. We cannot reach this target if we maintain the pace set in FY3/18, so our challenge for FY3/19 and FY3/20 is to work out how to make it more feasible.
- I will discuss each of these three core areas in turn starting from the next page.

## Focused Strategies: Portfolio Management

- FY3/18: Controlled equity risk volume dynamically while managing interest rate risk
- FY3/19: Rebalance the portfolio flexibly in response to the increase of market volatility

### Image of portfolio management

FY3/18 Results (Changes in risk volume) Note: Managerial accounting basis



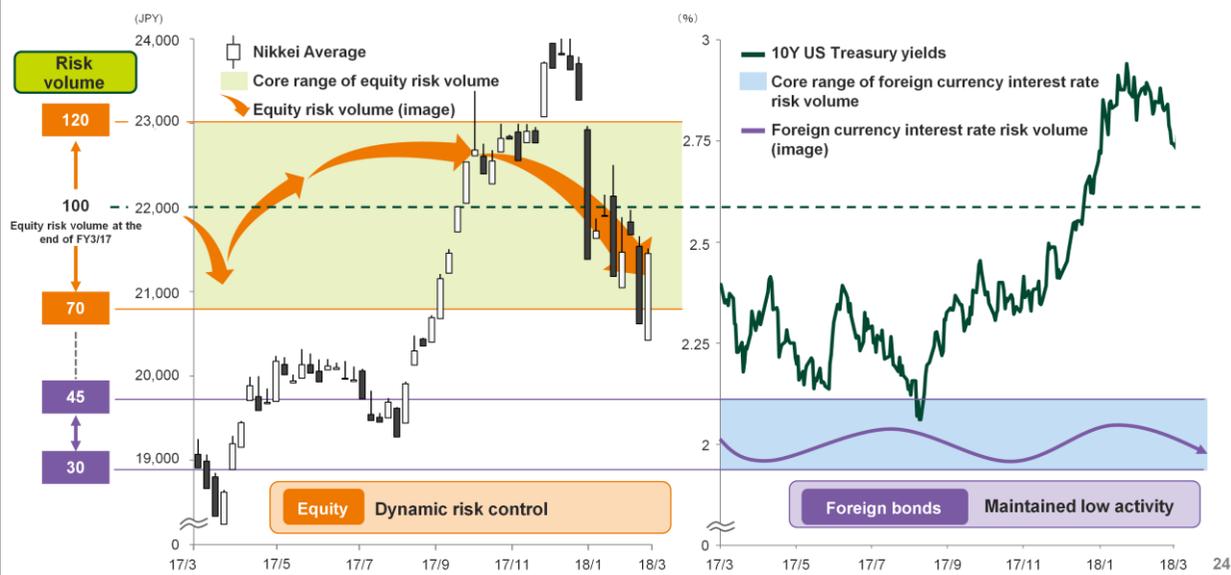
- First, let's look at portfolio management. In FY3/18, we made profit by keeping risks of interest rate under control, while dynamically taking risks of equity index-linked investments.
- The chart on the left hand side shows trends in the Nikkei Average and the risk volume of equity index-linked investments at SMBC. This is an index calculated with the risk volume at March 31, 2017 as a reference base risk (= 100) on a value at risk (VaR) basis.
- There were three main opportunities in the stock market in FY3/18. The first two were steep declines in response to heightened geopolitical risk. We managed to add risk volume at these instances by trading against the trend at the right time. The third opportunity, when share prices plummeted in January, caught us by surprise. We did not expect share prices to drop so far in two months, but we reduced our risk volume after the tide turned and before the decline accelerated, and headed toward the end of the fiscal year. We began increasing the risk volume again from the end of FY3/18 and to early FY3/19, because we expected that the market would rebound after the factors that drove the decline begin to fade.
- Regarding foreign currency interest rate market, we think FY3/18 offered no opportunities at all in the U.S. dollar interest rates. As an investor, we only take a long position, and therefore our investment basically starts with buying U.S. Treasuries. Having said that, there were almost no opportunities throughout the year to invest in products whose interest rates can go up sharply. Compared with our equity risk volume, we ended FY3/18 with limited position in interest rates, because we were wary of the rate hike. I believe that reducing interest rate risk played a part in the relatively strong performance of the Global Markets Business Unit.

## Focused Strategies: Portfolio Management

- FY3/18: Controlled equity risk volume dynamically while managing interest rate risk
- FY3/19: Rebalance the portfolio flexibly in response to the increase of market volatility

### Image of portfolio management

FY3/18 Results (Changes in risk volume) Note: Managerial accounting basis



- As to FY3/19, we believe we must take a more agile stance on portfolio management given the possibility that the market volatility may increase or that it remains at a high level and that major changes in the market environment may occur. We also cannot rule out the possibility that the turbulence in global stock markets since early 2018 is a warning sign.
- Our main focus points are orthodox, being 1) political risk, 2) business cycles, and 3) monetary policy. Political factors including trade issues undoubtedly affect business cycles, especially as we are near the peak of the economic cycle. In this context, I believe our portfolio management must be conducted, closely examining the potential negative impact of political factors and how the Fed and other central banks change their monetary policies in response.
- In this respect, we will be switching from the equity focused portfolio management approach of FY3/18 to a more diversified approach which will consider increasing the risk volume of foreign currency interest rate portfolio (though we want to include Yen interest rate portfolio, if possible, and yet not possible in reality). In doing so, we would like to secure more balanced revenue sources.
- The year 2018 will be a true test of our trading capability, i.e., the ability to read the market, which is one of our strengths. To put it another way, it is a year in which we could find out (or demonstrate) the true value of our trading capability.

## Focused Strategies: Sales & Trading

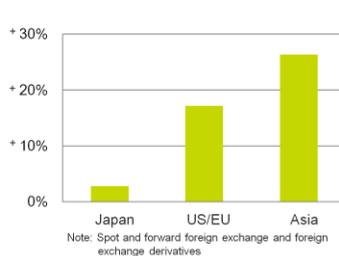
- Strengthen profitability effectively by solidifying the three pillars of ① trading capabilities, ② customer reach, and ③ products and solutions
- Apply market knowledge and expertise cultivated as a major market participant to provide customer solutions

	Banks (domestic)	Securities (domestic)	Banks and securities (overseas)
<b>Self-assessment of profitability</b>	<p>S&amp;T profit JPY 142.3 bn (YoY +6.8%)</p>	<p>S&amp;T profit JPY 49.5 bn (YoY +2.7%)</p>	<p>S&amp;T profit JPY 79.6 bn (YoY +7.2%)</p>
<b>Key initiatives</b>	<ul style="list-style-type: none"> <li>② Promotion of cross-selling in cross-entity transactions</li> <li>③ Sophistication of data analysis to enhance solution-providing capabilities</li> </ul>	<ul style="list-style-type: none"> <li>① Strengthen equity facilitation</li> <li>① ③ Promotion of self-manufacturing of derivatives</li> <li>③ Expansion of non-flow bond business</li> </ul>	<ul style="list-style-type: none"> <li>① ③ Strengthen local currency trading capability</li> <li>① ③ Full-scale operation of credit trading</li> </ul>

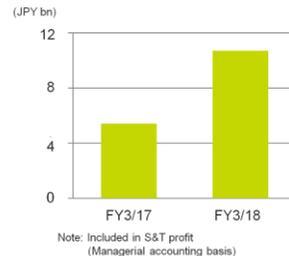
S&T profits (quarterly basis)



FX transactions (YoY)



Equity trading profit (securities)



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- Next I will talk about Sales & Trading (S&T).
- The bar graph on the bottom left shows the quarterly earnings trends. In FY3/18, S&T profits totaled ¥271 billion, an increase of ¥16 billion year-on-year.
- As I have mentioned already, we have set a very ambitious target for FY3/20, the final year of our Medium-Term Management Plan. We want to improve the feasibility of achieving this target by further accelerating and enhancing our profitability before the fourth quarter of FY3/19, with such momentum that will carry on into the following fiscal year, just like what we did in the fourth quarter of FY3/18.
- Initiatives to achieve the target are shown in the top. Our basic understanding of the earnings capability of S&T is a combination of undertaking many deals from our customers and improving profitability of each deal.
- Keywords for maximizing the number of deals we undertake are “customer reach” and “products and solutions”. Customers will choose us for these attributes, and we will maximize the profitability of those deals by harnessing our trading capabilities. In this way, we are implementing initiatives at each entity and business base within their current capabilities.

## Focused Strategies: Sales & Trading

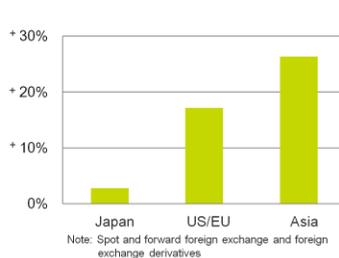
- Strengthen profitability effectively by solidifying the three pillars of ① trading capabilities, ② customer reach, and ③ products and solutions
- Apply market knowledge and expertise cultivated as a major market participant to provide customer solutions

	Banks (domestic)	Securities (domestic)	Banks and securities (overseas)
<b>Self-assessment of profitability</b>	<p>S&amp;T profit JPY 142.3 bn (YoY +6.8%)</p>	<p>S&amp;T profit JPY 49.5 bn (YoY +2.7%)</p>	<p>S&amp;T profit JPY 79.6 bn (YoY +7.2%)</p>
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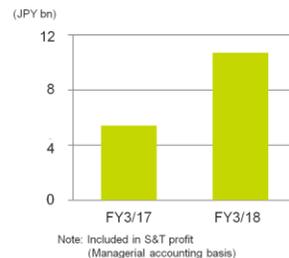
S&T profits (quarterly basis)



FX transactions (YoY)



Equity trading profit (securities)



- The banking (domestic) segment is the driver of S&T profits. They account for over half of our total ¥270 billion S&T profits, and the growth rate is high in this segment. I believe one factor that contributed to the brisk performance in FY3/18 was redefining S&T as a strategic business area, which motivated marketing staffs to work extra hard. Another initiative that had a positive effect in my view is visualizing customers' risk with data analysis and using it to propose solutions, and this resulted in higher contract rate. Since most of this work still depends on manual labor, I am confident to say that by incorporating digital technologies to increase the frequency and accuracy of operations, we will be able to show further growth.
- In the securities (domestic) segment, we benefit from the huge franchise value of SMBC Nikko as one of Japan's former big four securities firms, which means we have substantial customer coverage. We thus focus on making each and every deal in this segment profitable. In FY3/18, we made significant improvement in the profitability of equity trading. In this segment, our priority is to generate the same momentum in the fixed income business as well.
- We acknowledge that our positioning is still weak in the banking and securities (overseas) segment, the last of the three segments, but to put it another way, there is considerable potential for growth. In FY3/18, the transaction volume in Asia handled by SMBC grew by more than 20%. We aim to increase overseas S&T profits of SMBC by taking advantage of this trend and strengthen the trading capability of local currencies. FY3/18 was a year of building up SMBC Nikko's overseas trading platform, and we began full-scale operation in FY3/19. We are taking various steps to make it a stand-alone operation as another growth driver of S&T profits as we look ahead to FY3/20.

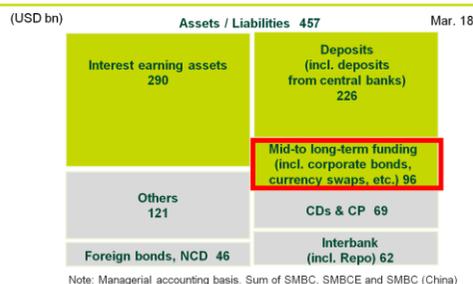
## Focused Strategy: Foreign currency funding

- Reduce cost through timely funding looking at the market environment
- Build a robust foreign currency funding base by enlarging our investors base and diversifying our funding sources

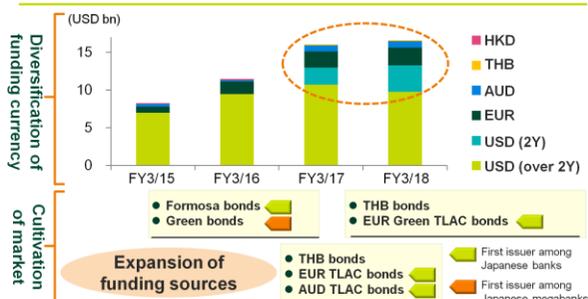
### Medium- to long-term currency swaps (yen swaps)



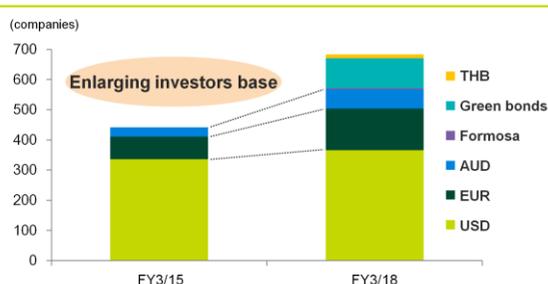
### (Ref) Foreign currency balance sheet



### Corporate bond issuance



### Number of bond investors



- Finally, we move on to foreign currency funding.
- Deposits were discussed by the Head of the International Business Unit, so I will briefly explain the mid- to long-term funding part of the balance sheet.
- Mid- to long-term funding plays a crucial role in the stability of funding and mainly consists of issuing corporate bonds and conducting currency swaps (yen swaps). Yen swaps are operations that we could make independent decisions on. We engage intensively in these operations at times of low cost, not when it is in a state of premium (i.e., high cost) to minimize funding costs.
- For corporate bonds, we communicate closely with bond investors and issue bonds on a regular basis, gradually building up the issue amount.
- In other words, our funding is a combination of yen swaps, which prioritize cost, and issuance of corporate bonds, which prioritizes stability.
- In particular, as well as issuing USD denominated senior bonds, we are also focusing on diversifying funding currencies and methods. We have engaged in many funding deals that have been the first for a Japanese bank. As a result, we have attracted a growing number of investors in each currency, and we think it has led to our robust foreign currency funding.
- These initiatives will not be completed in a year or two (i.e., FY3/19 and FY3/20). As the International Business Unit remains the growth driver for SMBC Group as a whole, the Global Markets Business Unit is committed to strengthening operations to strengthen our foreign currency funding capability.

# Outside Director

Masayuki Matsumoto, Director

- **Initiatives as an outside director**
- **Looking back the past year as an outside director**

- First, let me talk about my experience as an outside director.  
I feel there are many things in common with my past career in the railway business and public broadcasting and the work in a financial institution, especially a bank.  
Those are that (a) all of them are public and social infrastructure and (b) the growth of their business and company stand on achieving trust.
- Financial institutions are in a midst of a large structural change, and what is extremely important is how we deal with this change and establish a sustainable management structure as well as fulfill our role in the society.  
Under this circumstance, I am participating in the board meeting as an outside director who could make the most direct remarks and I believe that outside directors' remarks lead to reflecting the customers, shareholders and other stakeholders' thoughts in the board meeting.
- Looking back on my past year's activities, the chairman of the Audit Committee was the main role.  
From the perspective of corporate governance, the expectation to the Audit Committee's role is large. Therefore, I started off with standardizing the Audit Committee members' sense of values and perception to manage the Committee effectively.  
However, since the Audit Committee cannot bear all the responsibilities, I believe it is important to enhance the effectiveness of corporate governance as a whole. To do so, we have been striving to fulfill our role by gathering our capabilities and leveraging our teamwork / total ability, and I believe that our organization structure has come to a good level.  
With respect to that, I am reporting divergences and other things I felt in the Audit Committee to the board meeting as well as making proposals.  
Also, as the chairman of the Audit Committee, I occasionally have discussions with the top management of the group companies to evaluate how the group-wide business units are working and the management of the group as a whole and use their opinion as a reference to conduct my role.
- Lastly, I am also a member of the Nomination Committee.  
I have been involved in personnel affairs and appointment of officers in the past, and through these experiences, I believe that we could nominate the most fitted leader through the deep discussions being made at the Nomination Committee including the kind of person that should be nominated for the next CEO and the ideal leader figure.

- Enhance governance framework by transforming into a Company with Three Committees
- Seven outside directors with various knowledge and experience have been appointed

**Governance framework**

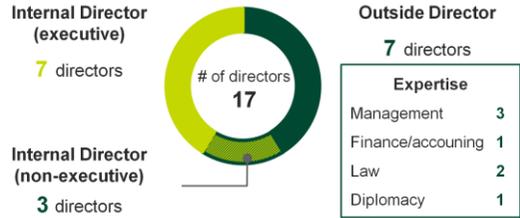


**Transformed into a Company with Three Committees (Jun. 2017)**

- Establish standard G-SIFI governance framework
- Strengthen the supervisory function of the Board of Directors
- Expedite execution of operations

**Board of Directors, outside directors**

**Composition and operation of the Board of Directors**



FY	FY3/17	FY3/18
# of meetings	14	10
# of agenda items	144	82

**Outside director exclusive meetings**

- Held to exchange information and share their perception from an independent and objective standpoint. Feedback of the discussion is given to management
- Held twice in FY3/18

## Composition of Internal Committees

◎ : Chairman, ○ : Member

(As of March 31, 2018)

Committee (inside : outside)		Nomination (1:5)	Compensation (2:4)	Audit (2:3)	Risk (1:4)
Masayuki Matsumoto	Outside director	○		◎	
Arthur M. Mitchell	Outside director	○	○		
Shozo Yamazaki	Outside director			○	○
Masaharu Kohno	Outside director	○			○
Yoshinobu Tsutsui	Outside director	◎	○		
Katsuyoshi Shinbo	Outside director		◎	○	
Eriko Sakurai	Outside director	○	○		
Koichi Miyata	Chairman of the Board	○	○		
Takeshi Kunibe	Director President		○		
Jun Ohta	Director Deputy President and Executive Officer				◎
Toshiyuki Teramoto	Director			○	
Toru Mikami	Director			○	
Hirohide Yamaguchi <sup>*1</sup>	Outside expert				○
Nobuyuki Kinoshita <sup>*2</sup>	Outside expert				○

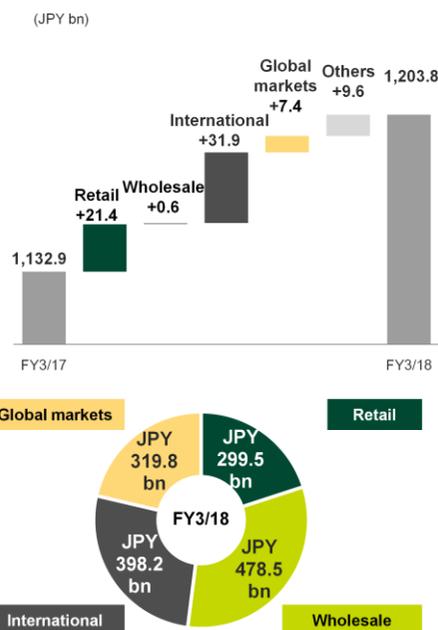
\*1 Chairman of the Advisory Board of Nikko Research Center, Inc., former Deputy Governor of the Bank of Japan \*2 Senior Advisor, Aflac Japan

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# Appendix

		(JPY bn)	FY3/17 <sup>*1</sup>	FY3/18	YoY <sup>*2</sup>
Retail	Gross profit		1,313.9	1,311.5	+34.2
	Expenses		1,041.1	1,027.5	+16.1
	Overhead ratio		79.2%	78.3%	(0.8)%
	Others		12.1	15.5	+3.3
	<b>Net business profit</b>		284.9	299.5	<b>+21.4</b>
	ROE <sup>*3</sup>		-	7.5%	-
	RWA (JPY tn) <sup>*4</sup>		-	13.8	-
Wholesale	Gross profit		776.4	772.9	(6.7)
	Expenses		344.8	347.8	+1.6
	Overhead ratio		44.4%	45.0%	+0.6%
	Others		45.7	53.4	+8.9
	<b>Net business profit</b>		477.2	478.5	<b>+0.6</b>
	ROE <sup>*3</sup>		-	11.4%	-
	RWA (JPY tn) <sup>*4</sup>		-	20.1	-
International	Gross profit		566.1	632.0	+38.8
	Expenses		241.2	280.7	+23.2
	Overhead ratio		42.6%	44.4%	+1.0%
	Others		38.4	46.9	+16.3
	<b>Net business profit</b>		363.4	398.2	<b>+31.9</b>
	ROE <sup>*3</sup>		-	10.6%	-
	RWA (JPY tn) <sup>*4</sup>		-	21.0	-
Global markets	Gross profit		346.8	356.2	+6.4
	Expenses		50.2	53.9	+3.3
	Overhead ratio		14.5%	15.1%	+0.7%
	Others		8.1	17.5	+4.3
	<b>Net business profit</b>		304.8	319.8	<b>+7.4</b>
	ROE <sup>*3</sup>		-	33.5%	-
	RWA (JPY tn) <sup>*4</sup>		-	5.9	-

Net business profit by business unit



\*1 Adjusted retrospectively in the business unit basis which was introduced in FY3/18 \*2 After adjustments of the changes of interest rates and exchange rates

\*3 Managerial accounting basis with RWA calculated assuming Basel III reforms are finalized. Excludes impact from the provision for losses on interest repayments and the cost from branch reorganization (Retail), the mid- to long-term foreign currency funding costs (International) and the interest-rate risk associated to the banking account (Global Markets)

\*4 Basel III transitional basis