Presentation at Daiwa Investment Conference Tokyo 2018
Major questions and answers

Q1. SMFG started its new Mid-Term-Management-Plan in April 2017 and profit attributable to owners of parents in 1-3Q, FY3/2018 has already exceeded the full-year target. What factors are better than you anticipated in the Mid-Term Management Plan and what are the challenges?

A1. Since starting the new Mid-Term Management Plan, SMFG introduced Group-wide business units and CxO System in April 2017 to maximize business potential for the Group and transformed into a Company with Three Committees in July 2017 to enhance group-wide corporate governance.

One of the positive results we have seen so far is that we have been able to improve the efficiencies of capital, asset, and cost based on "Discipline", one of three core policies of our Mid-Term Management Plan. In terms of capital and asset efficiencies, we have been rapidly transforming our business/asset portfolio by turning our regional bank subsidiaries into equity method affiliates and reorganizing the joint leasing partnership. For cost efficiency, SMFG's overhead ratio has been getting higher even though the ratio is still lower than the other Japanese mega banks. Therefore, we are working on initiatives to change the trend of our overhead ratio from upward to downward and some of the initiatives have already shown results in the first three quarters. In addition, under the Group-wide business units, strategies by customer segment and synergies among group companies are being realized in each business unit (retail, wholesale, international, and global markets). I am encouraged to see these progresses both in strategies as well as in the financial numbers.

On the other hand, if I had to bring up one challenge, it is that the domestic loan spread has continued to decline and the recent decline is a little bigger than our peers. Although the spread decline for newly originated loan seems to be bottomed out in the wholesale business, it will take a little more time for the decline of domestic loan spread on a stock basis to hit the bottom because of competition, replacement of old higher spread loans to lower spread loans, and continued decline of mortgage loan spread . We would like to end the decline of spreads and change it to an upward trend as soon as possible by applying business performance assessment criteria that values improvement of profitability to the front offices in the next fiscal year.

Q2. What is your outlook of achieving SMFG's CET1 ratio target on a finalized Basel III basis? Can you also comment on the notion of your updated capital policy, especially shareholder returns including share buyback?

A2. We are currently assessing the effect of the finalization of Basel III reforms, but at this moment, we expect the inflation of RWA to be about 25% against the current Basel III basis in March 2017. Basel III reforms were finalized with a capital floor of 72.5%, which is higher than our original assumption of 70%. On the other hand, the revisions were eased in areas including the CVA risk framework and operational risks. Therefore, we expect the final impact of RWA inflation will be almost at the same level as our original assumption under the Medium-Term Management Plan. As a result, as long as we can successfully execute the Medium-Term Management Plan, we believe SMFG will be able to achieve the CET1 ratio target by March 2020 as planned.

I understand through communication with investors/analysts that expectation against share buyback to enhance shareholder returns is high. Our updated capital policy including share buyback is going to be laid out in May 2018. We have started discussions, including at the board meeting looking into aspects including the impact coming from the finalization of Basel III reforms, forecast of earnings and accumulation of retained earnings, our stock price, opportunities of investments for growth, and our peers' CET1 ratio target after the Basel III reforms.

Q3. How does SMFG utilize new technology both in top-line growth and in cost structure reforms?

A3. Financial institutions have always been trying to utilize new technologies in order to rationalize and improve their operations. However, I believe the innovation of technology we currently face has a much larger magnitude which could dramatically change our business model. I believe that this is a great opportunity to change the way we do business and provide new financial services.

We are promoting digitalization within our Mid-Term Management Plan through: "enhancing the customer convenience", "generating new business", "improving productivity and efficiency", and "upgrading management infrastructure."

When we consider enhancing the customer convenience or generating new businesses, our distinctive feature is that we focus on initiatives “that we could monetize” and “that leads to building a platform”. We have already established “Polarify”, which provides a biometric authentication service, “brees corporation”, which provides an electronic barcode bill payments service at convenience stores, and “hoops link tokyo” in Shibuya, a hub for industry, government, academia, and start-ups leading to generating innovation. An area where we are trying to enhance is “payment” services. We want to establish a leading position as a payment platformer by leveraging the strength of having Sumitomo Mitsui Card and Cedyna, two of the leading credit card companies in Japan as subsidiaries.

In terms of cost structure reforms, our plan is to reduce workload of 4,000 people in three years with key initiatives; “utilizing Robotic Process Automation (RPA) to improve efficiency of business processes”, “integrating and sharing of head office functions on a group-wide basis”, and “retail branch reorganization.” We will reduce workload through technology and relocate staffs to high value-added operations and strategic core business areas. At the same time, as the Group CEO, I would like to relieve employees from routine work and give them more exciting opportunities. For recruiting, IT literacy should be one of the core criteria going forward.

Q4. What is your outlook on BOJ’s monetary policy, and what would be the impact on your earnings if the monetary easing policy changes?

A4. Looking at the recent yen appreciation and adjustments of the stock market since February, I believe it has now become a little difficult for BOJ to revise the monetary easing policy. However, though it is hard to predict when, I believe that at some point BOJ will be revising the policy.

Our Medium-Term Management Plan was made with the assumption that the negative interest rate policy will continue during the three years. We are aiming to achieve sustainable growth of the bottom line profit by increasing non-interest income and expansion of the overseas business. In other words, if the domestic interest rate rises, it would be an upside. We estimate that our net interest income will increase by approximately JPY 30 billion if the short-term rate rises by 10 bps.

Q5. What is SMFG's overseas strategy, especially in Asia?

A5. Among the four Business Units, the International Business Unit is expected to have the highest growth. In our overseas business, we will enhance the transactions with both Japanese and non-Japanese corporate customers and at the same time, in the mid-term, we aim to raise the percentage of the sum of high profit assets, project finance and trade finance from the current 40% to 45% of the total credit portfolio of the International Business Unit through nimble portfolio management. Of course, we will always pay attention to securing liquidity of foreign currencies.

In terms of regions, the U.S. is performing well at this moment, but as we believe Asia will grow in the mid-term, we will promote our "Asia-centric" strategy. We have been able to expand the business relationships with family-run conglomerates in Asia successfully both from the corporate side and the individual side. We are implementing the "Multi-Franchise strategy", which aims to conduct full-line commercial banking operations including retail, in certain countries where the population is large and the middle class is expected to expand. This will allow us to capture growth of these countries. For example, one of the targeted countries for our "Multi-Franchise strategy is Indonesia. In Indonesia we are expanding our business through various entities such as SMBC Indonesia, a subsidiary that focuses on the wholesale business, BTPN, a local bank that we hold 40% stake and focuses on the retail business, and OTO/SOF which conduct automotive finance. Also we have an investment in a government-related financial institution that conducts project finances to infrastructures. In January 2018, we announced that SMBC Indonesia and BTPN will start to evaluate a potential merger.

Q6. What is your investment strategy in securities going forward as the volatility of the market rises as a result of the U.S. rate hike?

A6. The volatility of the market at the moment is rising affected by president Trump's remark on imposing import taxes, but we believe the basic scenario that the stock market will continue to be strong based on the growth of global economy will not change significantly. As to our securities portfolio, we will continue to focus on investing in Japanese stocks and limit taking the risks of foreign bonds especially U.S. treasury. However, at the same time, we will continue to monitor the market conditions.

Q7. What are the synergies from the merger of SMBC Nikko Securities and SMBC Friend Securities?

A7. By merging SMBC Nikko Securities and SMBC Friend Securities in January 2018, SMBC Nikko Securities is now able to enjoy not only the increased number of sales staffs, but also the advantage of having deep knowledge and expertise in equity sales, which was SMBC Friend Securities' strength.

By taking a year and a half of preparation time from the announcement to the actual merger, they succeeded to integrate their systems and personnel smoothly, and we believe that the impact of the strengthened personnel will start to appear soon.