Message from the Group CFO

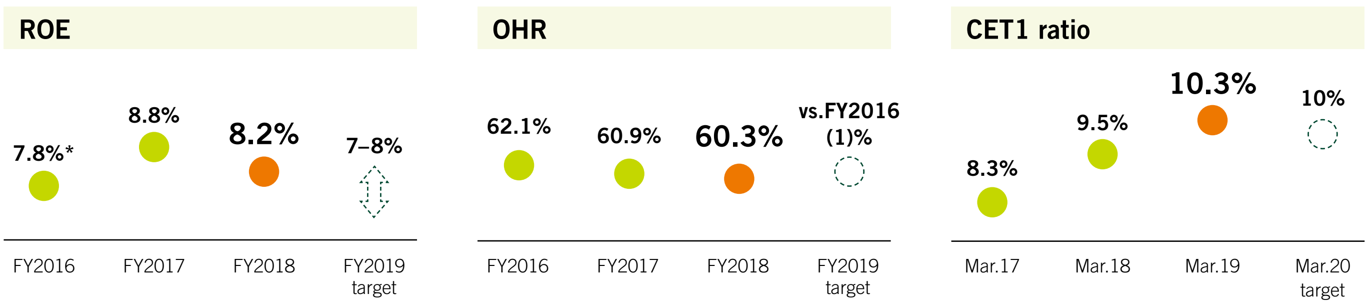
I was appointed as Group CFO and CSO in April 2019. The positions of CFO and CSO are concurrently held by the same individual based on the belief that in the context of management, financial and business strategies are two sides of the same coin. In other words, we believe that both strategies are fundamental to the continued success of our business. By having one individual fill these two roles, it makes it possible to accelerate the decision making process and consistently take into account both perspectives when developing strategies.

Business Management Focusing on Enhancing Operational Efficiencies

SMBC Group aims to become a resilient, first class global financial group by focusing on enhancing capital, asset, and cost efficiencies. In order to realize this vision, we have established three financial targets in the current Medium-Term Management Plan: ROE, OHR, and CET1 ratio.

We produced strong financial results for 1H FY2018 with all four of our business units realizing a Year-on-Year increase in profit. We have exceeded our targets for consolidated net business profit and profit attributable to owners of parent due to the performance of the International Business Unit and a group-wide cost control approach, although the Retail Business Unit's wealth management business experienced difficulties in 2H FY2018 due to deteriorating market conditions. Controlling risk-weighted assets through the reorganization of Group companies, which I will describe in more detail later, was also an important factor behind the strong results in regards to our three financial targets.

Financial targets



* Excluding special factors, such as the effects of implementing the consolidated corporate-tax system

* Post-Basel III reforms basis

Transforming Our Business and Asset Portfolio

In order to enhance capital and asset efficiencies, we need to maximize returns by carefully selecting target businesses and focusing our resources on those businesses. SMBC Group has been swiftly reorganizing its Group companies by reviewing its business and asset portfolio based upon the goals and strategies established under the Medium-Term Management Plan.

We carried out in rapid-succession the reorganization of businesses for which there was room to improve capital and asset efficiencies and merged overlapping business that existed within SMBC Group. In addition to the merger of SMBC Nikko and SMBC Friend Securities and the deconsolidation of the Kansai regional banks, in FY2018 we reorganized our leasing business to deconsolidate Sumitomo Mitsui Finance and Leasing and consolidated BTPN by merging the bank with PT Bank Mitsui Sumitomo Indonesia and by increasing our capital investment. In April 2019, we also merged Sumitomo Mitsui Asset Management Company with Daiwa SB Investments and turned Sumitomo Mitsui Card Company, a joint venture with NTT DOCOMO, into a wholly owned subsidiary. Both of these initiatives contributed to improving capital and asset efficiencies by increasing bottom-line profit and/or reducing risk weighted assets.

These reorganizations possess multiple merits, not only from the standpoint of improving efficiencies but also business strategy. For example, due to the reorganization of our leasing business, Sumitomo Mitsui Finance and Leasing is able to expand its leasing operations by entering into new businesses while SMBC Group is now able to initiate strategic initiatives through Sumitomo Mitsui Card Company in a flexible and speedy manner, making the company the central piece of our group's cashless payment strategy.

Please refer to page 52 for the reorganization of Group companies

Cost Control

The current Medium-Term Management Plan has a target to reduce cost by ¥50 billion during its three years by implementing three key initiatives: business reform to improve efficiency, retail branch reorganization, and reorganization of Group companies. We have already realized cost savings of ¥36 billion as of the end of FY2018 and expect to exceed our target of ¥50 billion in FY2019.

For business reform to improve efficiency, we are proactively introducing RPA to various parts of our business and SMBC Group has already produced world-class results. The Medium-Term Management Plan set a target to automate three million working hours (annual workload of 1,500 employees) of operations for which we have already accomplished automating two million working hours (annual workload of 1,025 employees) as of the end of FY2018. For retail branch reorganization, our goal is to transform all of the 430 branches into smart branches which leverage digital technologies during the three year term. As of the end of FY2018, 259 branches have been transformed into smart branches and we have consolidated the back-office clerical operations of 278 branches. In regard to reorganization of our Group companies, we are expecting to realize cost reductions which exceed our target via the integrated management of Sumitomo Mitsui Card Company and Cedyna Financial Corporation which was not planned at the time of preparing the current Medium-Term Management Plan. We will continue to reduce cost with our medium-term goal being ¥100 billion.

Furthermore, while we initially planned to reduce the workload equivalent to four thousand employees through the key initiatives, we now expect to exceed this target and reduce the workload equivalent to five thousand employees as we have introduced RPA to Group companies other than SMBC. We expect to reduce our domestic headcount by about four thousand through attrition taking into account the above mentioned workload reduction.

While we will continue our efforts to reduce cost so that we may achieve our OHR target, we understand the importance of making the necessary investments in IT given the rapid spread of digitalization. As such, we have been reviewing our budget during the fiscal year in a flexible manner so that we can address changes in the environment. Of course, we are applying ample levels of discipline when engaging in such investments, carefully studying the benefits that they will bring.

Please refer to page 94 for our IT investment strategy

Our Capital Policy: A New Stage

Our Basic Capital Policy

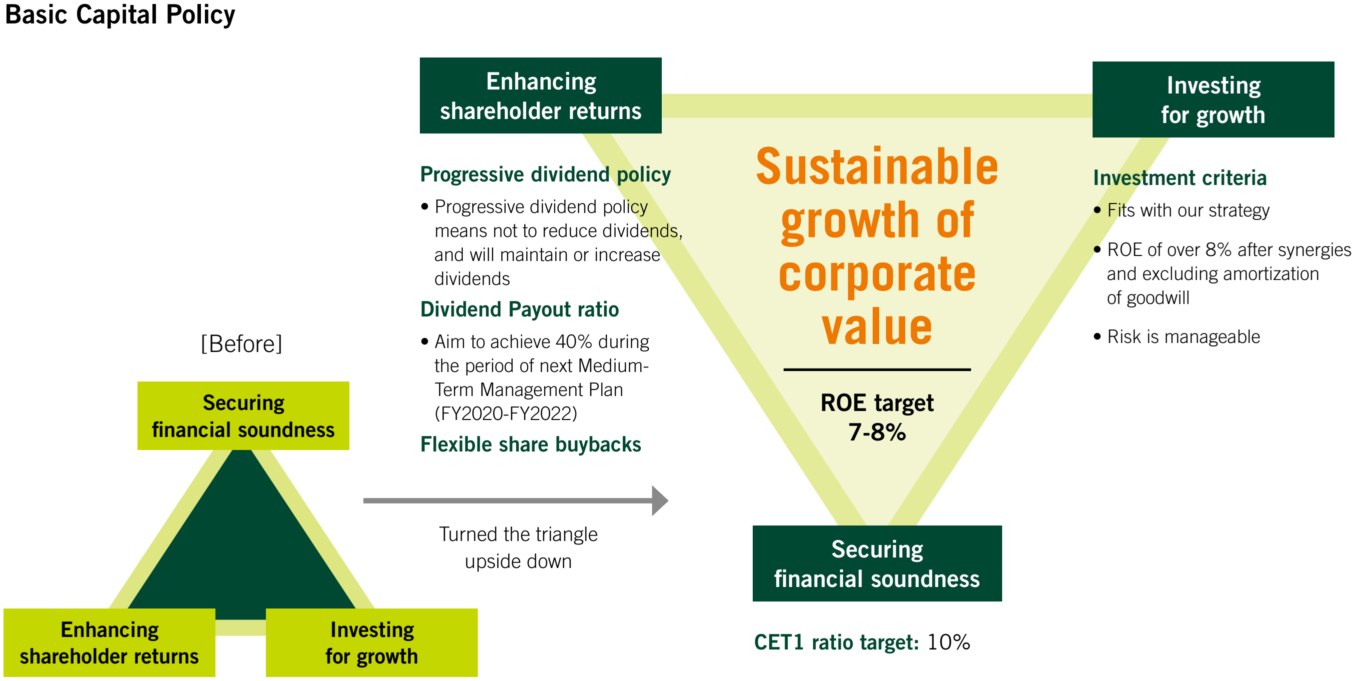
As stated in the "Message from the Group CEO," the goal of our basic capital policy is to achieve a healthy balance among securing financial soundness, enhancing shareholder returns, and investing for growth. We will shift from a phase where capital accumulation was the priority to a new stage where we will focus on shareholder returns and investing for growth, as we reached our CET1 ratio target of 10% as of the end of FY2018, one year ahead of schedule. We have traditionally used a triangle to illustrate our basic capital policy with securing financial soundness placed at the top. To show that our capital policy has entered a new stage, we have started using an inverted triangle with enhancing shareholder returns and investing for growth at the top. Going forward, we will focus on striking the right balance of allocating capital to these two items.

Enhancing Shareholder Returns

Dividends are our principal approach to shareholder returns. We will pursue a progressive dividends policy, a policy which means that we will not reduce dividends; we will maintain or increase dividends. Our goal is to achieve a payout ratio of 40% during the next Medium-Term Management Plan. In addition, we will proceed with share buybacks on a flexible basis.

Based on this policy, we increased our dividend for FY2018 to ¥180 per share, ¥10 higher than our initial forecast, and announced a ¥100 billion share buyback program in May 2019. This was an increase of ¥30 billion from the previous year. We decided to increase the amount due to various factors, such as the fact that we had achieved our CET1 ratio target, we expect to continue to accumulate profits in FY2019, current growth investment opportunities, our stock price, and the positive impact on ROE. Among them, our low stock price was the key factor.

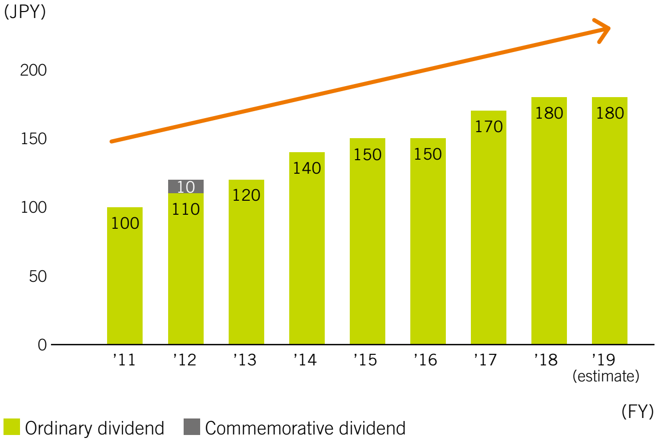
Basic Capital Policy



For FY2019, we will maintain dividends at ¥180 per share despite an expected decline in profit attributable to owners of parent as part of our efforts to meet the expectations of our shareholders and investors.

Dividends per share

(JPY)



	'11	'12	'13	'14	'15	'16	'17	'18	'19
Dividend payout ratio	26.8%	21.3%	20.3%	26.2%	32.7%	29.9%	32.7%	34.6%	35.9%
(Ref) Total payout ratio								44.2%	50.2%

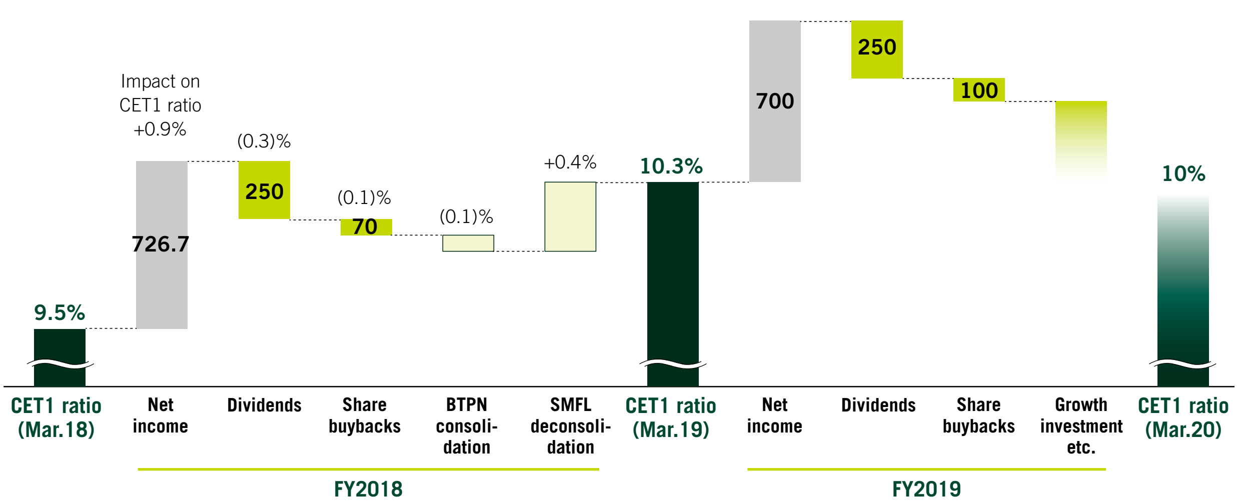
Investing for Growth

SMBC Group will pursue sustainable growth by using its capital to invest in growth opportunities. While we focused on capital accumulation and not increasing risk weighted assets prior to achieving our CET1 ratio goal, going forward we will pursue organic growth by increasing assets, especially in overseas markets. We will determine whether to pursue M&A opportunities based on whether the deal contributes to sustained ROE improvement following the three investment criteria shown in the basic capital policy chart. Potential M&A opportunities which we will pursue will be investments that focus on global businesses and portfolios which possess high capital or asset efficiencies and investments related to the construction of business platforms aimed at realizing future growth.

The former refers to areas in which SMBC Group possess global strengths. Past investments include aircraft leasing, rail car leasing, and middle-market LBO finance. Investments of this type will not only further strengthen our global business but will also promptly raise ROE. Some examples of investments of the latter type are commercial banking in Asia, asset management, securities, and trust banking businesses. In February 2019, the merger of BTPN and PT Bank Sumitomo Mitsui Indonesia was completed with the post-merger bank becoming the eighth largest commercial bank in Indonesia in terms of loan balance. We will pursue investment opportunities

Use of capital

(JPY bn)



in other countries so that we can create a second, or potentially a third, SMBC Group.

How we use our capital is drawing increasing attention from our shareholders and investors as a result of our capital policy shifting to a new stage. We began using the chart shown below as of the beginning of this fiscal year at investor presentations so that we could better convey how we are using our capital.

Profit attributable to owners of parent is expected to be ¥700 billion in FY2019, and we are allocating ¥250 billion to dividends and ¥100 billion to share buybacks. This means that we will return about half of our profit to shareholders. In terms of investing for growth, we allocated ¥80 billion to the conversion of Sumitomo Mitsui Card Company to a wholly owned subsidiary and the merger of Sumitomo Mitsui Asset Management Company and Daiwa SB Investments, both of which took place in April 2019. We are planning to allocate about ¥150 billion to organic growth opportunities with the focus being on increasing assets overseas. The remaining capital will be allocated to other growth investment opportunities.

Securing Financial Soundness

Although our capital policy has entered a new stage, there is no change to the fact that capital will be allocated to enhancing shareholder returns or investing for growth only when we are sure that financial soundness has been secured.

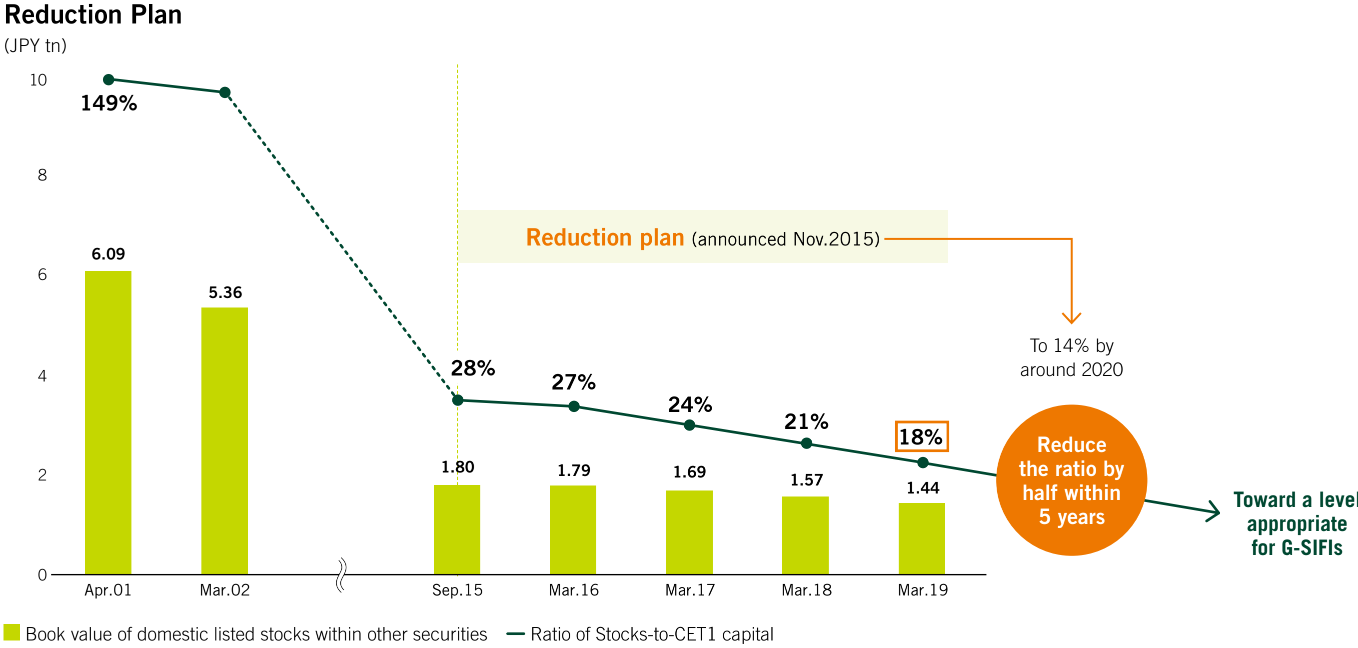
Our CET1 ratio target of 10% has been calculated taking into account the impact of the Basel III reforms which were finalized in December 2017, and as I stated earlier we achieved this target as of the end of FY2018. We set our target at a level which allows us to maintain the minimum CET1 ratio of 8% even in the case of a once-in-a-decade stress scenario.

Furthermore, the TLAC framework came into effect in Japan from the end of March 2019. The minimum TLAC requirements which SMBC Group must satisfy are 16% in terms of risk-weighted assets and 6% of the leverage exposure measure. SMBC Group has cleared both requirements as of the end of FY2018. We are currently working to secure the capital required to satisfy the new TLAC requirements, which will increase starting from 2022 to 18% and 6.75%, respectively. The minimum acceptable leverage ratio has been set at 3.0% for 2019-2021 and 3.5% for 2022 onwards. SMBC Group has already secured a leverage ratio of 4.88% as of the end of FY2018.

Reducing Strategic Shareholdings

Our goal is to reduce strategic shareholdings in five years by ¥500 billion (book value basis) based on the policy: "We will halve the ratio of stocks to CET1 to 14% over the five years starting 2015 September-end." SMBC Group has reduced its strategic shareholdings by ¥360 billion since 2015

Reduction Plan



* Apr.01 and Mar.02 are ratio against SMBC consolidated Tier1 capital

September-end, including a reduction of ¥130 billion during FY2018. In addition, we have obtained our clients' consent to sell a further ¥88 billion of strategic shareholdings that has yet to be executed. Thus, as of the end of FY2018 we have practically realized a total reduction of ¥448 billion.

We will continue efforts to reduce our strategic shareholdings so that we have reached a level at the end of FY2019 where we have practically achieved our final target figure with the aim of conforming to Japan's amended Corporate Governance Code and mitigating the impact of share price fluctuations on our financial base.

Communicating with Our Shareholders and Investors

Although I was appointed as Group CFO in April 2019, I communicated with institutional and individual investors during FY2018 in my role as Deputy Group CFO. I engaged in numerous discussions with investors during my four overseas investor relations trips and the various conferences which I took part in. I also met with representatives from domestic and overseas credit rating agencies. While I became confident that we were able to gain the understanding of our shareholders/investors regarding the aims and goals of our strategies through these discussions, I also came to appreciate the very high expectations our shareholders/investors had regarding the enhancement of shareholder returns. In response to such matters, we decided to increase dividend payments and share buybacks in our FY2019 shareholder return policy following repeated discussions at meetings of our Board of Directors. In addition, my discussion with shareholders/investors regarding ESG and SDGs led to SMBC calculating and disclosing the financial impact of climate change as part of our TCFD-related measures.

I strongly believe that one of my most important missions as Group CFO is to engage in constructive discussions with investors and analysts. SMBC Group will continue to proactively disclose information that is useful to shareholders/investors while leveraging interactive communications to increase our corporate value and realize sustainable growth.

Toru Nakashima
Group CFO
Director Senior Managing Corporate Executive Officer