Sumitomo Mitsui Financial Group, Inc.

Major questions and answers on the financial results for 1H, FY3/2015

Frequently asked questions and our answers on the financial results for 1H, FY3/2015, announced on November 13, 2014 and our answers are as follows. For the overview of the financial results, please refer to the announcement posted on our website at:
http://www.smfg.co.jp/english/investor/financial/latest_statement/2015_3/h2609_e4_01.pdf

1. Financial results for 1H, FY3/2015

Q1. Please explain the major factors of the year-on-year decrease in SMFG's consolidated Net income.

A1. SMFG's consolidated Net income was JPY 479.5 billion, JPY 26.2 billion lower compared with the six months ended September 30, 2013. Consolidated gross profit was down by JPY 59.9 billion year-on-year to JPY 1,450.1 billion. This was largely the result of a decrease in profits at SMBC Nikko Securities and SMBC Friend Securities impacted by a slow growth in income from equity commissions, although we saw an increase in SMBC's non-consolidated gross profit due to a rise in Net interest income in line with asset growth mainly in Asia and the Americas. Consolidated net business profit fell by JPY 91.6 billion year-on-year to JPY 645.9 billion, partly because of a JPY 23.6 billion increase in General and administrative expenses, which was mainly caused by an increase in expenditures by SMBC aimed at strengthening its overseas business. Net reversal of Total credit cost increased year-on-year by JPY 49.2 billion mainly due to our individualized efforts to assist certain borrowers to improve their businesses and financial conditions. As a result of the foregoing, on a SMFG consolidated basis, Ordinary profit was down by JPY 55.4 billion year-on-year to JPY 780.5 billion.

Q2. Please explain the major factors of the increase in SMFG's Net income compared with the half-year earnings targets announced in May.

A2. SMFG's consolidated Net income for 1H, FY3/2015 was JPY 479.5 billion, a JPY 149.5 billion increase compared with the May announcement. This was mainly due to factors at SMBC. SMBC's Ordinary profit was JPY 592.5 billion and Net income was 408.2 billion, higher by JPY 192.5 billion and JPY 128.2 billion respectively, compared to the May announcement. This was because of a JPY 70.9 billion rise in Banking profit to JPY 440.9 billion partly driven by the flexible operations of our Treasury Unit, and also because of a JPY 74.2 billion improvement in the net reversal of Total credit cost. The contribution of SMFG's other subsidiaries and affiliates to SMFG's Net income was JPY 71.3 billion, higher by JPY 21.3 billion compared with the May announcement, on account of subsidiaries such as SMBC Consumer Finance and Cedyna showing steady results while sales of investment trusts and equity commissions decreased at SMBC Nikko securities.

Q3. Please explain the major factors of the net reversal of SMFG's consolidated Total credit cost.

A3. SMFG's consolidated Total credit cost was a net reversal of JPY 88.8 billion mainly due to a reversal of provisions at SMBC. Total credit cost on a SMBC non-consolidated basis was a net reversal of JPY 124.2 billion. This was primarily because of a reversal of provisions made in previous years due to improvements in classification of certain borrowers and a decline in loan reserve ratio arising from the downward trend of loan losses, reflecting the favorable economic environment. Total credit cost of other subsidiaries and affiliates amounted to JPY 34.1 billion, down by JPY 3.6 billion year-on-year mainly from a drop in Total credit cost at Kansai Urban Banking Corporation due to lower incurrence of credit cost, reflecting the favorable economic environment.

Q4. Please explain SMFG's Common equity Tier 1 capital ratio as of September 30, 2014.

A4. SMFG's Common equity Tier 1 capital ratio as of September 30, 2014 stood at 10.80%.

2. Earnings targets

Q5. Please explain the major factors in the upward revision of SMFG's consolidated Net income target for FY3/2015 compared to the May announcement.

A5. SMFG's consolidated Net income target for FY3/2015 announced on May 2014 has been revised upwards by JPY 20 billion to JPY 700 billion largely due to the following factors at SMBC. (i) Banking profit target for FY3/2015 stays unchanged at JPY 750 billion; profits from equity index-linked investment trusts that were present in 1H, FY3/2015 are not factored in for 2H. (ii) Net reversal of Total credit cost for FY3/2015 is now expected to be JPY 50 billion higher than the May announcement, although a further reversal of provisions resulting from a decline in loan reserve ratio, as was seen in 1H, is not anticipated in 2H, and a reversal of provisions made in previous years is expected to be limited. Regarding our other consolidated subsidiaries and affiliates, we do not expect large deviations from our May announcement.

Q6. Please explain the reasons for why SMFG's consolidated Net income for 2H, FY3/2015, is expected to be lower than the May announcement.

A6. SMFG's consolidated Net income for 2H, FY3/2015, derived by subtracting 1H, FY3/2015 results from FY3/2015 target, is expected to be lower by JPY 129.5 billion at JPY 220.5 billion, compared with JPY 350 billion of the May announcement. The decline is estimated to be JPY 110 billion at SMBC and JPY 20 billion at other consolidated subsidiaries and affiliates. At SMBC, Banking profit for 2H, FY3/2015 is anticipated to be lower by JPY 70.9 billion compared with the May announcement because Banking profit target for FY3/2015 stays unchanged in spite of the Treasury Unit's higher-than-expected Gross banking profit in 1H, FY3/2015. Total credit cost is expected to increase by JPY 24.2 billion compared with the May announcement to JPY 74.2 billion; this factors in our expectation for limited reversal of provisions made in previous years and also includes a conservative assumption of risk factors such as global economic uncertainty. Total credit cost of other consolidated subsidiaries and affiliates is expected to increase by JPY 14.6 billion to JPY 74.6 billion; various factors in the business environment were taken into account conservatively at each company.

Q7. Please explain the reason for the SMFG's interim dividends per share for common stock being unchanged while annual dividend forecast has been raised.

A7. We determine the annual dividend based on our annual results. Therefore, interim dividends for common stock remain unchanged at JPY 60 per share. We have revised annual dividend forecast to be JPY 130 per share, an increase by JPY 10 from our May forecast.

3. Others

Q8. Please explain the progress of the medium-term management plan.

A8. We are moving steadily forward toward achieving the financial targets of the medium-term management plan, as shown below.

- Growth rate of Consolidated gross profit[*1]: +0.1% (target: Around +15%[*2])
- Consolidated ROE: 14.4% (target: Around 10%)
- Consolidated Net income RORA: 1.48% (target: Around 1%)
- Consolidated overhead ratio: 55.5% (target: In the mid 50%)
- Common equity Tier 1 capital ratio[*3]: 10.7% (target: Around 10%)

*1 Annualized

*2 FY3/2017 targeted consolidated gross profit in comparison with FY3/2014 figure.

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

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

Please refer to our most recent disclosure documents such as our annual report or registration statement on Form 20-F and other documents submitted to the U.S. Securities and Exchange Commission, as well as earnings press releases, for a more detailed description of the risks and uncertainties that may affect our financial conditions and results of operations, and investors’ decisions.