Sumitomo Mitsui Financial Group, Inc.

Major questions and answers on the financial results for 1H, FY3/2017

Frequently asked questions and our answers on the financial results for 1H, FY3/2017, announced on November 14, 2016 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/2017_3/h2809_e4_01.pdf

1. Financial results for 1H, FY3/2017

Q1. Please explain the major factors of the year-on-year decrease in SMFG's consolidated Profit attributable to owners of parent.

A1. SMFG's consolidated Profit attributable to owners of parent was JPY 359.2 billion, JPY 28.9 billion lower compared with the same period of the previous year.
Consolidated Gross profit was JPY 1,417.5 billion, down by JPY 95.3 billion year-on-year. This was largely due to the effects of yen appreciation and a decline in interest rates as well as lower profits at the Treasury Unit of SMBC and the retail businesses of SMBC and SMBC Nikko Securities, which had demonstrated good results in the previous year because of a robust market.
Ordinary profit was JPY 514.3 billion, a decrease of JPY 117.6 billion year-on-year. This was largely due to an increase of JPY 29.8 billion year-on-year in General and administrative expenses mainly due to the acquisition of PRESTIA by SMBC Trust Bank and an increase of JPY 30.6 billion year-on-year in Total credit cost due to reduced gains on reversal of provisions at SMBC. The decrease was partially offset by an increase of JPY 56.1 billion year-on-year in Equity in gains (losses) of affiliates, resulting from the absence of an impairment loss on goodwill of investments for our affiliated company, PT Bank Tabungan Pensiunan NasionalTbk ("BTPN") which was recorded in the previous year.
On the other hand, Gains on step acquisitions of JPY 29.3 billion were posted in Extraordinary gains (losses) through the consolidation of Sumitomo Mitsui Asset Management ("SMAM") and tax expenses decreased.

Q2. Please explain the major factors of the year-on-year increase in SMFG's consolidated Total credit cost.

A2. SMFG's consolidated Total credit cost was JPY 54.8 billion, an increase of JPY 30.6 billion compared with the same period of the previous year.
Total credit cost for SMBC on a non-consolidated basis was a net reversal of JPY 8.0 billion, which was an increase of JPY 19.6 billion in terms of losses year-on-year. This was mainly due to reduced gains on reversal of provisions made in the past,

while the incurrence of new credit cost remained at a low level reflecting the steady economy in Japan.

Total credit cost for consolidated subsidiaries and affiliates increased as SMBC Consumer Finance continued to expand their business.

Q3. Please explain the major factors of the variance between SMFG consolidated and SMBC non-consolidated compared with the same period of the previous year.

A3. The variance in Profit attributable to owners of parent was JPY (38.9) billion, a decrease of JPY 141.8 billion compared with the same period of the previous year.

Among this decrease, JPY 200 billion was due to dividends received from SMBC Nikko Securities.

The variance excluding such dividends was an increase of JPY 58.2 billion. Despite a decline in profit at some subsidiaries including SMBC Nikko Securities, factors such as (i) an increase of profit at Sumitomo Mitsui Finance and Leasing, (ii) the absence of an impairment loss on goodwill of investments recorded in the previous year for BTPN and (iii) gains on step acquisitions through the consolidation of SMAM contributed to this increase.

Q4. Please explain SMFG’s consolidated Common equity Tier 1 capital ratio as of September 30, 2016.

A4. SMFG’s consolidated Common equity Tier 1 capital ratio as of September 30, 2016 was 12.04%.

2. Earnings targets

Q5. Please explain the major factors of SMFG’s consolidated Profit attributable to owners of parent target for FY3/2017 compared with FY3/2016 results.

A5. SMFG’s consolidated Profit attributable to owners of parent target for FY3/2017 is JPY 700 billion, higher by JPY 53 billion compared with FY3/2016 results.

The major reasons for the increase are as follows.

Consolidated Gross profit target is JPY 2,905 billion, a slight increase compared with the previous year. While the severe business environment is expected to continue partly due to the impact of negative interest rates, we expect an increase in profits at SMBC’s Marketing Unit and other major subsidiaries.

Against the above, consolidated Net business profit is expected to decrease year-on-year. While the decrease will be partly offset by the absence of an impairment loss on goodwill of investments for BTPN of JPY 57 billion recorded in the previous year, a rise in General and administrative expenses resulting from the acquisition of PRESTIA by SMBC Trust Bank and SMFL Capital (former GE Japan) by Sumitomo Mitsui Finance and Leasing is expected to lead to the decrease of Net business profit.

Ordinary profit target for FY3/2017 is JPY 960 billion, down by approximately JPY 25 billion year-on-year. Despite the absence of provisions for losses on interest repayments of JPY 141 billion at our consumer finance subsidiaries recorded in the previous year, taking into account of the uncertain economic environment going forward, we anticipate an increase of JPY 77.2 billion in Total credit cost at SMBC. In addition, Gains (losses) on stocks are not expected to reach the same level (JPY 69.0 billion) as recorded in the previous year.

On the other hand, SMFG's consolidated Profit attributable to owners of parent target is higher than FY3/2016 results, partly due to gains on step acquisitions recorded through the consolidation of SMAM.

Q6. Please explain the economic assumptions of the FY3/2017 earnings target such as interest and exchange rate.

A6. We assume that the yen interest rate will be 0.06% (3M-Tibor), which is one basis point lower than the level of September 30, 2016. Our assumptions of the foreign exchange rates are JPY 100 per U.S. dollar and JPY 110 per Euro, changed from our original assumptions made in May, which were JPY 110 per U.S. dollar and JPY 125 per Euro.

3. Others

Q7. Please explain the progress of the medium-term management plan.

A7. As for 1H, FY3/2017, since the business environment was worse than the assumptions made under the medium-term management plan, top-line profit fell short and as a result, indicators of profitability were below the financial targets as shown below.

· Growth rate of Consolidated gross profit:	(2.2)% (*1)	(target: +15% (*2))
· Consolidated ROE:	9.4% (*1)	(target: around 10%)
· Consolidated Net income RORA:	1.10% (*1)	(target: around 1%)
· Consolidated overhead ratio:	62.2%	(target: in the mid 50%)
· Common equity Tier 1 capital ratio (*3):	11.9%	(target: around 10%)

*1 Annualized

*2 Consolidated Gross profit increase in comparison with the FY3/2014 figure

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

Q8. Please explain the progress of the plan to reduce strategic shareholdings.

A8. Our medium- and long-term plan to reduce strategic shareholdings is that "we aim to have the assurance of reducing the Ratio of Stocks-to-CET1 capital(*4) by half within approximately 5 years (beginning at Sep. 30, 2015) ", which is reducing book value of up to about 30% or about JPY 500 billion of domestic listed stocks.

In the 1H, FY3/2017, we made a reduction of approximately JPY 40 billion of stocks outstanding. The Ratio of Stock-to-CET1 capital as of September 30, 2016 was 26.8% lower than the Ratio of 28.2% as of September 30, 2015.

The outstanding of consent of sales from clients as of September 30, 2016 is approximately JPY 100 billion. This means we are in line with the reduction pace of JPY 100 billion annually.

*4 The Ratio of Stocks-to-CET1 capital =

SMFG consolidated basis The book value of domestic listed stocks / Common Equity Tier 1 capital (*5)

*5 Basel III fully-loaded basis, excluding net unrealized gains on Other securities.

Q9. Please explain SMFG's policy related to shareholder returns.

A9. We aim to increase our shareholder value and enhance shareholder return by realizing sustainable growth, while maintaining financial soundness. We also intend to enhance shareholder return by measures such as raising the dividend per share in a stable manner, while taking into account the economic environment, financial regulatory changes, our profit outlook and capital position and other factors.

As for FY3/2017, with our target of Profit attributable to owners of parent at JPY 700 billion, we forecast the annual dividends on common stock to be JPY 150 per share and JPY 75 per share for an interim dividend. This will bring the dividend payout ratio, the dividends as a percentage of Profit attributable to owners of parent, at 30.2%, which meets our medium- and long-term target of 30%.