Sumitomo Mitsui Financial Group, Inc.

Major questions and answers at the Investor Meeting Presentation for FY3/2017 Performance

Q1. Please explain the key points of the new Medium-Term Management Plan.

A1. The key points of the new Medium-Term Management Plan are summarized to the three core policies: “Discipline”, “Focus” and “Integration.”

In other words, under a challenging earnings environment, (1) we will improve profitability to become a high-quality financial group by disciplined management, investment and cost operation, (2) we will engage in growth strategies by focusing on seven core business areas, which are selected based on our strengths and growth, and (3) we will further enhance and integrate group management structure under a new corporate governance framework and a group-wide operational structure.

Q2. Please explain the outlook for profit level of the new Medium-Term Management Plan.

A2. The outlook for profit level in FY3/2020, which is the final year of the new Medium-Term Management Plan, is as follows.

We expect an increase in consolidated Gross profit by slightly less than 5% in three years. This will mainly be led by an increase of non-interest income and business expansion of each business unit, in spite of structural negative factors such as continued negative interest rate policy, shrinking loan spreads, and higher mid- to long-term foreign currency funding costs.

With regards to the General and administrative expenses, we aim for a 1% reduction of overhead ratio in FY3/2020 compared with FY3/2017. We will pursue cost reduction by improving productivity and efficiency on a group-wide basis, while there are unavoidable increasing costs, such as upfront investments necessary for cost structure reform, the effects from past investments, and revenue-linked expenses.

Through these efforts, we aim to increase consolidated Net business profit by a little more than 5% in three years.

We anticipate consolidated Credit costs of JPY 210 billion for FY3/2018, and assume that it will gradually increase during the three years.

Though we do not show the actual target for Profit attributable to owners of parent target in FY3/2020 because the business environment is unclear and uncertain and because our profit is largely affected by the environment, we will aim for the JPY 700 billion level to become a high-quality financial group.

Q3. Please explain SMFG's Capital Policy.

A3. Our basic capital policy is to balance "securing financial soundness", "enhancing shareholder returns", and "investing for growth".

As the timing of the implementation of tightened international financial regulations and what impact they will have are still unclear, we made up the plan based on our assumption, with currently available information, that RwA will increase by about 25% in FY3/2021 compared to the current level.

We therefore set the CET1 ratio target to secure sufficient financial soundness one year before that, which is FY3/2020, the final year of the new Medium-Term Management Plan. Specifically, we aim for CET1 ratio of 10% based on assuming RwA inflation by the finalization of Basel III reforms, calculated with CET1 excluding net unrealized gains on other securities and RwA excluding RwA associated with gains on stocks. The CET1 ratio calculated on that basis is 8.3%, as of March 31, 2017.

Q4 Please explain by when SMFG expects to raise dividend payout ratio to 40%, and policy for share buybacks.

A4. The timing to raise the dividend payout ratio to 40% is not clear at this moment because it depends on the level of profits, accumulation of capital, and the regulatory situation going forward. However, we will be looking to raise it to 40% over the medium-term. Besides, we will adopt a progressive dividend policy, i.e., no dividend cuts, therefore either maintaining or increasing dividends.

Policy for share buybacks will be laid out after the finalization of Basel III reforms because we cannot confirm the capital adequacy at this stage due to the uncertain regulatory environment.

Q5 Please explain SMFG's investment criteria and specific M&A target.

A5. We have set our investment criteria based on "Discipline" and "Focus", which are the basic policies of the new Medium-Term Management Plan. Specific criteria are (1) to fit with our strategy, (2) to achieve ROE of over 8% after synergies and excluding amortization of goodwill, and (3) to be risk manageable.

We are looking to become a very strong global financial group in Asia and Japan over the long-term. Therefore, the commercial banking business in Asia will be the highest priority target for M&A. High-profit asset portfolios in the United States and Europe such as aircraft leasing, railcar leasing, and LBO financing business for strengthening our top-tier global products come next, as well as creating a new business platform over the medium-term in the asset management and trust banking businesses. Although the priority of initiatives to strengthen dollar funding is not low, the priority of US banks as target for M&A is low now because of their high valuation.

Q6 Please explain responsibility and division of roles between the head of business unit and the head of entity.

A6. The head of business unit draws up the group strategy for each business unit, and each head of entity executes the business in accordance with the group strategy. Since the head of entity continues to have most of the authority over the business execution, he/she owes responsibility associated with the authority. On the other hand, the head of business unit is responsible for the profitability of each business unit. We have adopted a framework of business unit in a gradual manner into the former framework that focuses on each entity.

Regarding human resource management, while the Chief Human Resource Officer ("CHRO") is responsible for human resource allocation in the entire group, the Head of Entity has basic authority over personnel matters.

Q7 Please explain the difference from other banks in digitalization.

A7 We will proactively introduce new technologies and promote digitalization in various areas such as "enhancing the customer experience", "generating new businesses", "improving productivity and efficiency", and "upgrading management infrastructure". Other banks also focus on digitalization, but our "difference" from others is that we focus on "digitalization which produces tangible effects" and "digitalization which leads to creating a new platform". Specific examples include utilizing paperless transaction at branches and establishment of a joint venture regarding biometric authentication platform, which was the first approval of the Banking Act revision.

Q8 Please explain the positive effects coming out of branch reorganization.

A8 We estimate 4,000 people to be reduced as a result of improving productivity and efficiency including branch reorganization. This does not necessarily mean cutting 4,000 people. We will improve profitability by relocating limited human resources to our focusing areas such as the strategic business areas.

As for branch reorganization, we plan to transform all branches to next-generation branches through JPY 50 billion investments in three years, and anticipate the annual cost savings to be JPY 20 billion. This annual cost savings is a gross figure excluding expenses related to transforming next-generation branches. Although the transition to next-generation branches will require some initial investments in the early stage, we expect the annual cost savings to be more than JPY 20 billion over the medium-term once the initial investments is completed. Additionally, we believe that this effect will lead to top-line profit growth as operational efficiency will allow us to focus more on consulting our customers, which are not included in the current projections.

Q9 Please explain the outlook for domestic loan to deposit spread.

A9 One year has passed since the introduction of the negative interest rate policy by the Bank of Japan. We believe that the additional impact from the decline in market rates will not be so large if there is no further rate cuts. However, due to shrinking loan spreads resulting from a tough competitive environment, we expect the loan spread on a managerial accounting basis will decline by 5 bp in FY3/2018.

Q10 Please explain SMFG's policy regarding the card loan business.

A10 In the past three years, Net business profit of the consumer finance business SMBC and SMBC Consumer Finance combined mainly coming from the card loan business has grown at an annual rate of 10%. Going forward, we anticipate a single-digit annual growth.

We have been operating under the concept of the revised Money Lending Act., which includes conducting risk control by setting caps for loans that we provide and conducting periodic monitoring over our customer's credit situation. We will review the operation of advertisement and credit in order to protect our customers even more. Because of these efforts, the pace of growth is expected to slow down. On the other hand, customers' needs for consumer loans are still strong. Therefore, the consumer finance business will continue to be a strategic important area within our retail business.

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