

**Major questions and answers at the Investor Meeting Presentation  
for 1H, FY3/2018 performance**

**Q1. Please explain the effects of introducing the Group-wide business units.**

A1. Half a year has passed since introducing the Group-wide business units. I feel that our executives and employees have come to look at our business through “a Group-wide perspective”, which has led to share information among group companies and use it for our businesses. The collaboration among group companies used to be promoted in a “hub-and-spoke” model which centralized SMBC. However, now it has changed to a “chain” model where the collaboration is also carried out directly among the group companies. I feel we are heading in the right direction.

Since it will take more time to realize the full-fledged effects of the new structure, we will continue to take steps to enhance synergy.

**Q2. Please explain the initiatives for cost reduction.**

A2. We are promoting the following key initiatives for cost reduction; (a) Business reform to improve efficiency, (b) Retail branch reorganization and (c) Reorganization of group companies. Through these initiatives, we aim to achieve annual cost reduction of JPY 50 billion in three years and JPY 100 billion in the medium-term.

Cost reduction of approx. JPY 20 billion is already in sight after 1H, FY3/2018. The breakdown of the JPY 20 billion is as follows: (a) Approx. JPY 5 billion in Business reform to improve efficiency such as reducing staff by improving work efficiency through RPA (Robotic Process Automation), the sharing of computer systems, the integration of work operations and making joint procurement on a group basis, (b) Approx. JPY 5 billion in Retail branch reorganization such as reducing rent cost of branches through relocation and reducing staffs by the integration of back office operations, (c) Approx. JPY 10 billion in Reorganization of group companies coming from the integration of SMBC Nikko Securities and SMBC Friend Securities.

We estimate that one-third to one-quarter of this cost reduction will be realized in this fiscal year. This is due to the fact that many of the integration of offices through the Reorganization of group companies and the relocation of branches through the Retail branch reorganization will be introduced from the second

half of this fiscal year, and the reduction of workforce will occur through attrition. We will continue our efforts to realize the targeted cost reduction.

**Q3. Please explain why the performance of the Retail Business Unit was strong.**

A3. In 1H, FY3/2018, especially the performance of the wealth management business such as the sales of investment trusts was strong. In addition to the favorable market conditions, we think the reason for this was that we had been promoting the wealth management business model from an early stage. Among the investment products we offer, medium- to long-term diversified investment products such as “Anshin switch”, an investment trust with a protect line, and fund wraps are growing rather than investment trusts with monthly profit distribution.

**Q4. Please explain SMFG’s approach to wealthy individuals.**

A4. We respond to a wide range of wealthy individual’s needs by the alignment of SMBC, SMBC Nikko Securities and SMBC Trust Bank. SMBC acquires new wealthy customers by taking advantage of its broad customer base. SMBC Nikko Securities responds to wealth management needs of high-end wealthy individuals. SMBC Trust Bank provides foreign currency settlement services and tailor-made trust products. In the alignment of these companies, we are taking advantage of each company’s strengths.

**Q5. Do you have a target for the profit ratio of the International Business Unit against the consolidated net business profit?**

A5. The profit ratio of the International Business Unit against the consolidated net business profit was 34% in 1H, FY3/2018. Going forward, we plan to grow both the domestic and overseas businesses. However, since we expect that the growth rate of the overseas business will be higher, we believe that the profit ratio of the International Business Unit will gradually rise. Nonetheless, we do not set a specific target.

**Q6. Please explain the outlook of the overseas loan spread.**

A6. In addition to the effect of the tightening in market, the overseas loan spread declined in 1H, FY3/2018 mainly due to the following reasons:

- As a result of selectively taking risks of some middle risk/middle return assets such as LBO loans to control credit risk in light of the overheating market, the proportion of low risk assets with high obligor grading increased in our asset portfolio.
- As a result of capturing the active demands of trade finance, short-term assets maturing within six months increased temporarily.

As to the second half of this fiscal year, the short-term assets which increased temporarily will eventually be reduced as the loans will be matured; therefore, we expect the loan spread to improve to a certain extent. However, we also expect severe competition to continue, so we will aim to maintain or improve the loan spread by balancing credit risk control and appropriate risk taking.

**Q7. Please explain the outlook of the negative interest rate policy.**

A7. After introduction of the negative interest rate policy, some demand for long-term fundraising was seen due to the declined interest rate; however, we cannot say that the loan demand has increased significantly as a whole.

At the Monetary Policy Meeting held in October 2017, the Bank of Japan determined to maintain its current monetary policy framework to achieve the price stability target of 2 percent. We would like the Bank of Japan to continue verifying whether the policy is bringing positive effects to the economy. And through the observation of both the positive effects and side effects, we wish the path to normalize the monetary policy will be sought as soon as possible.

**Q8. Please explain SMFG's initiatives to expand business in the electronic settlement market.**

A8. We believe that the competition in the electronic settlement market will become more severe with many new players, including non-financial institutions coming in the market. However, we also think that there are advantages such as the expansion of the market itself. The Japanese government set a target to raise the percentage of cashless settlement in Japan to 40% by 2027 in the "Future Investment Strategy 2017" report, published in June 2017.

Responding to the customers' demand for small settlements, SMFG has been collaborating with Square, Inc. and also introduced "SMBC DEBIT" in 2016. In July 2017, "SMBC DEBIT" became the first debit card equipped with two touch settlement sensors (iD, Visa payWave). With this new function, it became even more convenient to use and is favored by our customers.

We are also working on developing new businesses. "brees corporation", which we established with NEC Corporation, released a service which enables users to pay their public utilities bills by showing a barcode on their smartphones. "Polarify", which we established with NTT DATA Corporation and an Irish company Daon, Inc., provides a biometric authentication platform, which is compatible with electronic settlement. Our distinctive feature when we consider establishing new businesses is that our focus is on initiatives "that leads to building a platform" and "that we could monetize".

**Q9. Please explain the capital policy after the reduction of risk-weighted assets from turning the two regional banks and Sumitomo Mitsui Finance and Leasing (SMFL) to equity method affiliates.**

A9. We announced that we will turn Kansai Urban Banking Corporation, THE MINATO BANK and SMFL into equity method affiliates, but the primary objective of the reorganization is not to reduce risk-weighted assets (RWA). As being one of the G-SIBs, the amount of capital required by regulations is high. This is why we reorganized our business as an initiative to review our business/asset portfolio to raise profitability. In addition, we took into consideration the opportunity for the group companies to pursue further growth through the reorganization.

As for the regional bank business, we reviewed the position within our group. As a result, we came to believe that Kansai Urban Banking Corporation and THE MINATO BANK will be able to contribute more to the growth of its operating regions by further responding to financial needs as a regional financial institution through the deconsolidation, since the restrictions against increasing assets will be eased.

As for the leasing business, we took into consideration the following two factors, and decided that the reorganization will bring benefits to both parties:

- The asset efficiency of the business is not good for SMFG, as we have to book 100% of SMFL's RWA because SMFL is our consolidated subsidiary, while recording only 60% of bottom-line earnings in proportion to our equity

stake.

- For SMFL, as being a consolidated subsidiary of SMFG, there are restrictions to expand their business from the Banking Act.

From the perspective of SMFG's capital management, as a result of these reorganizations, the RWA will decrease and the capital required to meet the regulations will be reduced accordingly. However, we will lay out our new capital policy as soon as we conduct due diligence and have thorough discussions once the Basel III reforms finalizes, by looking at items such as the latest financial performance and profit outlook, capital accumulation forecast, the opportunity of investments for growth and whether it is in alignment with our investment criteria, and our share price.

**Q10. Please explain the progress of reducing strategic shareholdings.**

A10. Regarding strategic shareholdings, we aim to halve the Ratio of stocks to CET1 during the 5 years starting from the end of Sep. 2015, which means we reduce the book value of domestic listed stocks up to about 30% or about JPY 500 billion.

In FY3/2018, we plan to reduce it by JPY 100 billion, and we made a reduction of approx. JPY 40 billion in the first half.

We measure progress toward our reduction target using the total of shareholdings sold and shareholdings for which we have gained consent from clients to sell. In 1H, FY3/2018, we gained consent of sales from clients of approx. JPY 60 billion. As of end-September 2017, the shareholdings for which we gained consent to sell from clients but are yet to be sold was approx. JPY 120 billion (increase of JPY20 billion compared to end-March 2017). Therefore, we believe the progress is in line toward the reduction target.

**Q11. Please explain the reason why SMBC non-consolidated earnings target is revised while SMFG's consolidated earnings target remains unchanged**

A11. The revision of SMBC's non-consolidated earnings target was due to the changes in expenses as a result of personnel relocation within the Group and the sale of shares of subsidiaries and affiliates which are eliminated on a SMFG consolidated basis.

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