Major questions and answers at the Investors Meeting Presentation for FY3/2018 performance

Q1. What does "proceed with share buybacks on a flexible basis" mean?

A1. It means that we will conduct share buybacks, not on a regular or periodical basis, but make a decision comprehensively by taking into consideration our earnings trends, growth investment opportunities, and other factors.

Specifically, we will make the decision comprehensively by looking at the following points; (a) maintaining financial soundness, in other words, considering the impact on our capital position (whether CET1 ratio on a post-Basel III reforms basis is likely to be maintained at our target of 10% and whether regulatory capital can be maintained at stress situations) as well as credit ratings, (b) earnings trend, which we analyze by comparing our consolidated net income (on a reported basis and excluding one-time factors) versus our announced annual target and assumption at the time of formulating the Medium-Term Management Plan, (c) our stock price and (d) improvement in ROE (see whether it would improve ROE in the mid- to long-term comparing it to growth investment opportunities). As to the amount, we have not set up any uniform standard, such as the ratio to consolidated net income because it will be determined based on the points mentioned above.

In addition, we are aware that share buybacks improve EPS.

Q2. How do you treat one-time profit in setting the dividend payout ratio target? In addition, are you planning to set any total payout ratio target?

A2. The dividend payout ratio target will be based on our reported consolidated net income. As to our shareholder returns when our consolidated net income surpasses our target, we will analyze the factors and consider a combination of raising dividend and/or conducting share buybacks.

When we gain confidence that the fundamental earnings strength is rising, we will consider raising dividends. If the higher profit is generated by a one-time factor, then we will consider share buybacks as one of the options.

Furthermore, dividends will be our principal approach to shareholder returns while we will proceed with share buybacks on a flexible basis assuming our financial soundness is maintained. Therefore, we will not set a total payout ratio target. We will aim to achieve a payout ratio of 40% during the period of the next Medium-Term Management Plan.

Q3. What are the criteria for M&A? Which business areas are you looking for?

A3. In our Medium-Term Management Plan, we set the following investment criteria for M&A; (a) to fit with our strategy, (b) to achieve ROE of over 8% after synergies and excluding amortization of goodwill and (c) to be risk manageable. We are looking to become a very strong global financial group in Asia and Japan in the long-term. Therefore, targeting commercial banking business in Asia will be the highest priority. High profit asset portfolio in the United States and Europe such as aircraft leasing, railcar leasing, and LBO financing business comes next. In addition, we would like to enhance our asset management business further through the merger of Sumitomo Mitsui Asset Management and Daiwa SB Investments as a second stage after turning Sumitomo Mitsui Asset Management into a consolidated subsidiary.

Q4. Reducing strategic shareholdings is progressing steadily under the current plan. Do you have any target after the current plan is completed?

A4. We established a target of reducing the ratio of stocks to CET1 toward a level appropriate for G-SIFIs in the future. We will first work on achieving the target under the current reduction plan towards 2020 and then consider the next step after that.

Q5. How is the group-wide collaboration working?

A5. I am confident to say that we are seeing active movements in generating businesses across the group after introducing group-wide business units. For example, in the collaboration between SMBC and SMBC Nikko, we believe that the private banking business, advisory for Japanese corporate clients, business for regional financial institutions, bond underwriting and sales of derivatives for non-Japanese corporate clients and Sales & Trading are areas with high growth potential.

Q6. What is the outlook of the domestic and overseas loan spread?

A6. As to the domestic business, in the Wholesale business unit, we are seeing some signs of improvement in spreads of newly offered loans, so we hope to stop the decline of stock-based loan spread during this Medium-Term Management Plan. However, we believe that the decline of spread in the overall domestic loans, which include mortgage loans, will continue for a certain period of time. As the Group CEO, I have that in mind as an important issue. Therefore, we will take further steps to improve our business profitability.

As to the overseas business, the loan spread declined as a result of improving asset quality through control of credit risk in light of the overheating market and increasing short-term assets capturing the active demands of trade finance. However, the balance of short-term assets decreased as they matured, and the loan spread has slightly improved at the end of the fiscal year. We will continue to focus on asset quality and profitability.

Q7. How will the U.S. interest rate hike impact your overseas business and investments in foreign bonds?

A7. Since most of the interest rates on our overseas deposits and loans are based on LIBOR, when the base rate of LIBOR rises as the U.S. interest rate does, both the deposit side and the loan side will be affected making the overall impact neutral.

As to the investment in securities, our basic policy is to continue operations weighing on Japanese stocks and controlling risks from foreign bonds. We will keep an eye on the market and continue our nimble portfolio management.

Q8. Is there still room to grow your non-JPY balance sheet?

A8. We believe that foreign currency funding and credit risk control is essential when we consider expanding our overseas business. As to the foreign currency funding, deposits from our customers and central banks are increasing steadily and in addition, we have issued foreign currency denominated bonds regularly. Also, as to the credit risk, we expect the current stable financial and economic environment to continue. Having considered these factors, this fiscal year, we plan to increase our foreign currency asset ahead of schedule, and we believe there is room to expand our balance sheet.

On the other hand, since we have been focusing on O&D (Origination & Distribution) business in the past few years, we also think that we could expand our overseas business by originating loans and distributing them to investors without greatly expanding our balance sheet.

Q9. What is the impact on foreign currency funding and the contingency plan if the credit rating of Japanese Government Bonds is lowered?

A9. We are carefully watching the sovereign credit rating of Japan because it will affect the credit rating of our Group. We set up contingency plans for situations when our credit ratings get downgraded based on thorough discussion as to risk management such as the impact on our operations and the level of how much assets can be reduced.

Q10. What are the initiatives on cashless payment and cryptocurrency?

A10. We believe that individual initiatives will not be sufficient to address the issues of cashless payment in Japan since many payment methods have developed in a complicated manner.

Recently, we announced our cashless payment strategy. By taking advantage that we have top-tier credit card companies; Sumitomo Mitsui Card Company and Cedyna within our Group, we will take the leading position to promote cashless payment in Japan by providing a consolidated solution to both the end-users and business operators.

As to cryptocurrency, we have gone through field testing utilizing blockchain and have already confirmed that we could introduce it technologically. However, whether we will be placing cryptocurrency as a core of our cashless payment strategy or not will be considered looking at the government policy and market trend going forward.

Q11. What is the breakdown of the cost from branch reorganization (approx. JPY 25 billion)?

A11. The cost is related to branches that are planned to be relocated during this Medium-Term Management Plan. The cost was recorded ahead of schedule since they are expected to be disposed or idled, and as such lose their value as operating assets at the point when relocation is determined. This was not recorded because individual branches were losing money.

Q12. What are your plans for investments and cost reduction?

A12. The overhead ratio declined by 1.2% to 60.9% in FY3/18. We will continue to control cost on a group-wide basis.

As to IT investment, since there was a large renewal in our core system during the last Medium-Term Management Plan, the total amount of investment is expected to decrease in the current Plan. However, the ratio of strategic investments such as investments for our digitalization strategy to the total IT investment amount will increase to 40% from the previous 30%. To deal with the changing IT environment, we will review our IT investment budget flexibly and make investments for future competitiveness.