

Presentation at Bank of America Merrill Lynch 2018 Japan Conference

Major questions and answers

Q1. What is the reason why the Medium-Term Management Plan starting from April 2017 is making good progress?

A1. The main reason is that each business unit executed the initiatives based on the three core policies (“Discipline”, “Focus”, and “Integration”) of the Medium-Term Management Plan and showed better progress than our original expectation. In addition, because the market environment was favorable, all business units showed good performance in both FY3/18 and 1Q, FY3/19.

In terms of “Discipline”, aiming to become a global financial group with high quality, we have rapidly transformed our business/asset portfolio by turning our regional bank subsidiaries in the Kansai area into equity-method affiliates and announced the reorganization of the joint leasing partnership of SMFL, which contributed to the improvement of capital and asset efficiency. And also, we showed good progress of the cost control initiatives on a group basis, aiming to improve cost efficiency.

In terms of “Focus”, we started the group-wide business unit system last fiscal year. The number of deals, for which is the result of customer driven collaboration among group companies, domestic/overseas operations and across business units, is increasing.

In terms of “Integration”, we transformed into a Company with Three Committees in June 2017 and accelerated business execution. In addition, the Board of Directors is conducting many active discussions about important management policies such as the capital policy from a broad perspective with outside directors who have diverse knowledge and experience.

Q2. Is there any intention to accumulate capital in excess of the 10% CET1 ratio target (*)? And also, what areas are looking for in terms of growth investment opportunity?

(*) Post-Basel III reforms basis (One of the financial targets of the Medium-Term Management Plan)

CET1: excludes net unrealized gains on other securities

RWA : excludes RWA associated with net unrealized gains on stocks

A2. In light of our risk profile of the current business portfolio, we believe we can secure financial soundness with the CET1 ratio being 10%. As we have a ROE target set, we do not intend to accumulate capital more than necessary. However, there is a possibility that we temporarily exceed the CET1 ratio of 10% if there is a growth investment opportunity in sight that fits with our strategy and will improve ROE.

Therefore, the "10% target" rather means "9.5% to 10.5%."

After we reach the CET1 ratio target of 10%, we will achieve a healthy balance between enhancing shareholder returns and investing for growth. Dividends will be our principal approach to shareholder returns. In addition, we will proceed with share buybacks on a flexible basis. As for dividends, we aim to pay progressive dividends supported by our sustainable earnings growth, and achieve a payout ratio of 40% during the next Medium-Term Management Plan, which will start from April 2020. The capital allocation between share buybacks and investing for growth will be determined based on which contributes to the improvement of ROE in the mid-term. We will make a decision by looking at certain checkpoints of share buybacks (maintaining financial soundness, earnings trends, our stock price, improvement in ROE) and the investment criteria (fits with our strategy, ROE of over 8% after synergies and amortization of goodwill, and risk is manageable).

In terms of growth investment opportunity, commercial banking business in Asia will be the highest priority. High-profit asset portfolio in the United States and Europe such as aircraft leasing and railcar leasing comes next. We also have an interest in securities, asset management, and trust banking business from the viewpoint of building a business platform in the mid- to long-term.

Q3. What is the business strategy in Indonesia?

A3. As we execute the decade-long Asian strategy, we have steadily strengthened the transaction business and made a steady progress in cross-selling with core clients. In order to capture the future growth of Asia especially the expansion of the middle-class, we are promoting the "Multi-franchise strategy", which we are aiming to establish a full-line banking entity covering both wholesale and retail operations.

As one of the targeted countries, in Indonesia, we hold a 40% stake in BTPN, a local bank with a strong retail presence, which we started investing in 2013. In 2018, we started the process for the merger of BTPN and SMBC Indonesia, a local bank subsidiary of SMBC. The merger is scheduled to be completed in the second half of this fiscal year.

Going forward, we will aim to maximize synergies on a group basis. For example, we will promote cross-selling by developing and introducing retail-oriented products for the employees of large corporate customers in SMBC Indonesia and retail customers in BTPN. In addition, we will aim to maximize revenues by covering a wide range of customers from large corporations to sole proprietorships and HNWI to mass consumers. We will work on collaboration and cross-selling among group companies such as local subsidiaries of SMBC Nikko Securities and SMFL as well as OTO/SOF,

an auto finance company jointly owned with Sumitomo Corporation.

We will also continue to focus on digital and mobile banking, which we developed and promoted for the retail customers of BTPN since we started investing in the bank.

Q4. What are your strategies for cashless payments and SMBC's strengths?

A4. The cashless payment environment in Japan differs from other countries because of the existing services such as the bank account transfer and the high reliability of cash. Therefore, we believe that there is a unique development form of cashless payments in Japan compared to other countries.

By having Sumitomo Mitsui Card and Cedyne in our group, we already have the top-tier status both in the issuing business and the acquiring business. Our plan is to play a front runner role in the development of the cashless payment market in Japan through initiatives that benefit both the businesses operators and end-users.

For business operators, we plan to build a next-generation payment platform with GMO Payment Gateway, which has a significant track record in the online payment market. In addition to the issuing and acquiring operations, we will internalize the currently outsourced processing operation and vertically integrate the entire process. Through this initiative, we will aim to provide services at a low cost while responding flexibly and promptly to the drastic development of the cashless payment market.

For end-users, we will provide a new cashless payment experience that is "Convenient", "Safe and secure" and "Beneficial" such as mobile services that allow flexible use of various payment methods (credit cards, debit cards, E-money, etc.) and interfaces (contact-less IC, QR code payments, etc.), self-control of spending limits and by introducing group-wide points.

Q5. What is your take of the BOJ's monetary policy announcement in July 2018? What is the impact of the negative interest rate policy on your financial performance?

A5. I understand that the views about the announcement are divided among the market. By introducing flexible operation of yield curve control by allowing certain volatility of the long-term interest rate and revising the size of the Policy-Rate Balance, I consider that the BOJ has taken a step towards the normalization of its monetary policy in the mid- to long-term.

In the announcement, the BOJ introduced forward guidance for policy rates and therefore the negative interest rate policy will continue for the time being. However,

we formulated the current Medium-Term Management Plan based on the assumption that the negative interest rate policy will continue for three years. Therefore, we will continue to steadily execute the initiatives outlined in the plan.

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