Bank of America Merrill Lynch 2018 Japan Conference

SMBC Group Management Strategy

Takeshi Kunibe
President and Group CEO

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SMBC SUMITOMO MITSUI FINANCIAL GROUP

- Hello everyone.
- Thank you for taking the time today to attend our session.
- I would also like to thank Merrill Lynch Japan Securities for organizing this conference.
- Starting from April 2017, we have embarked on our three-year Medium-Term Management Plan, which ends in FY3/20.
- In the past year and a half, we put various initiatives into action to attain the goal of becoming a financial group with high quality and achieved certain positive results, suggesting we are on the right track.

Agenda

Ⅰ 1Q, FY3/2019 performance

Ⅱ Progress of the Medium-Term Management Plan

Ⅲ Capital Policy

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- Today, I will first talk about our management strategy by going through the agenda on p.2 for approximately 20 minutes, and then take questions from Mr. Sasaki and the audience.

I 1Q, FY3/2019 performance

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1Q, FY3/2019 performance

- Made good progress towards the full year target

Income statement

(JPY bn)

	progress	Result 1Q	Result (in USD)	YoY	Target FY3/19
Consolidated gross profit		719.1	6.5 bn	(18.3)	
General and administrative expenses		428.8		(25.1)	
Equity in gains (losses) of affiliates		24.0		+4.4	
Consolidated net business profit[*1]	27%	314.4	2.8 bn	+11.2	1,155
Total credit cost		8.4		(6.4)	200
Gains (losses) on stocks		29.0		+0.1	
Other income (expenses)		(3.2)		(2.0)	
Ordinary profit		331.9	3.0 bn	+15.7	1,020
Extraordinary gains (losses)		(1.3)		(0.7)	
Income taxes		82.9		+33.1	
Profit attributable to owners of parent	32%	227.1	2.1 bn	(14.4)	700

Key ratios

	Result 1Q	Result YoY
ROE[*2]	10.5%	(1.3)%
Overhead ratio	59.6%	(2.0)%

Impact from the deconsolidation of the regional banks: *approx. (1)%*

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*1 Before provision for general reserve for possible loan losses *2 Annualized

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- Here is our first quarter performance.
- Consolidated net business profit exceeded our internal target for all four business units and reached 27% of the full-year target.
- Profit attributable to owners of parent was ¥227.1 billion and reached 32% of the full-year target.
- This was mainly due to the fact that total credit cost remained at a low level because of the reversal of credit cost from large borrowers at SMBC as well as the recording of gains on sales of stocks in line with the reduction of strategic shareholdings.
- From here on, I will discuss the progress of the initiatives in the Medium-Term Management Plan.

II Progress of the Medium-Term Management Plan

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Major developments from a year ago

- **Finalization of Basel III (Dec. 2017) : impact of RWA inflation to be as expected**
- **BOJ to continue NIRP for the time being : current Medium-Term Management Plan assumes NIRP will continue until FY3/20**

	International financial regulations	Monetary policy in Japan
Assumption (Medium-Term Management Plan)	➢ Our RWA to be inflated by 25% ➢ To be implemented in FY3/21	➢ Short-term rate to be (0.10)% until FY3/20 assuming NIRP will continue for three years
	Finalization of Basel III (Dec. 2017)	BOJ Monetary Policy Meeting (Jul. 2018)
Outcome	➢ Our RWA to be inflated by 25% ➢ To be fully implemented in FY3/27	➢ BOJ to continue NIRP
	⇒ **Focus can be put on "enhancing shareholder returns" and "investing for growth"**	⇒ **Accelerate the Medium-Term Management Plan**

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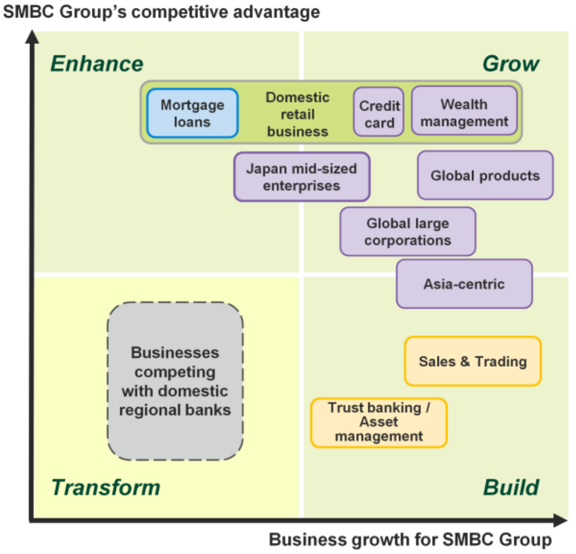
- This slide shows the major developments of the business environment since last year's conference.
- On the left, in terms of the regulatory environment, Basel III reforms were finalized last December.
- We estimate that our RWA will be inflated by about 25% compared to the fully loaded basis of the current Basel III regulations, but the impact was as expected and the same level that we envisioned when we formulated the current Medium-Term Management Plan.
- So far we have prioritized strengthening our capital base in anticipation of stricter regulations, but we believe we have reached the stage where focus can be put on enhancing shareholder returns and investing for growth now that regulatory uncertainty has cleared and we are on track to attain our CET1 ratio target.
- In light of these circumstances, we increased our dividends per share by ¥20 from FY3/17 to ¥170 per share for FY3/18, i.e. ¥10 higher than our initial target. And, we also conducted share buybacks of ¥70 billion.
- On the right-hand side, regarding monetary policy, the Bank of Japan announced in July that they will maintain the current extremely low levels of short- and long-term interest rates for an extended period of time.
- Although a harsh revenue environment is expected to continue, we have formulated the current Medium-Term Management Plan based on the assumption that the negative interest rate policy will continue during the period of the plan.
- For this reason, we will accelerate the measures outlined in the Medium-Term Management Plan in order to achieve sustainable bottom line growth by improving efficiency and expanding our overseas business.
- From the next page, I will discuss the progress of major initiatives.

Discipline

Transformation of business/asset portfolio

- **Prioritize business fields when allocating resources to enhance capital efficiency**
- **Announced and executed group reorganization measures to transform business/asset portfolio**

Business portfolio transformation



Review of group operations

Merger of SMBC Nikko and SMBC Friend	Completed
Deconsolidation of Kansai Urban Banking Corporation and THE MINATO BANK	Completed
Yahoo! JAPAN consolidated The Japan Net Bank	Completed
Change of shareholder composition of POCKET CARD	Completed
Reorganization of the joint leasing partnership of SMFL	Nov. 2018
Merger of BTPN and SMBC Indonesia[*1]	2H, FY3/19
Merger of SMAM and Daiwa SB Investments	Apr. 2019

Deconsolidation of the regional banks and SMFL

Bottom-line profit →

RWA[*2] JPY 7tn ↓

Capital efficiency (RORA) ↑

*1 A consolidated subsidiary of SMBC *2 Post-Basel III reform basis

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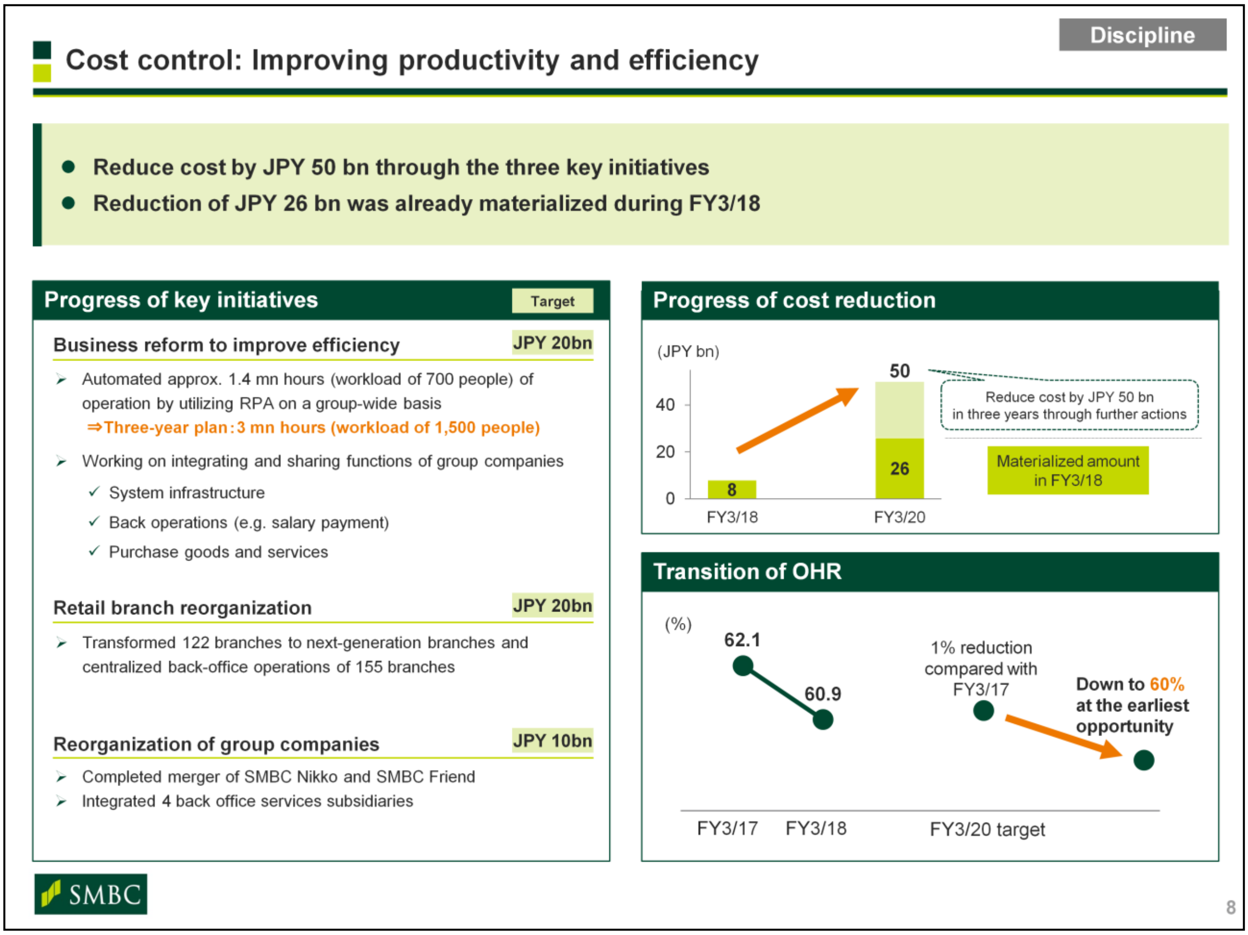
- First is the transformation of our business/asset portfolio.
- The measures taken or announced in the reorganization of our group operations are shown on the right-hand side.
- During the previous fiscal year, we deconsolidated our regional bank subsidiaries in the Kansai area and announced the reorganization of the joint leasing partnership of SMFL. And in May, we reached a basic agreement on the merger of Sumitomo Mitsui Asset Management (SMAM) and Daiwa SB Investments in the asset management business.
- With the deconsolidation of the regional bank subsidiaries and the reorganization of SMFL, as shown in the bottom right, while the impact on the bottom line will be limited, our RWA will decrease by approximately ¥7 trillion which will improve our capital efficiency.



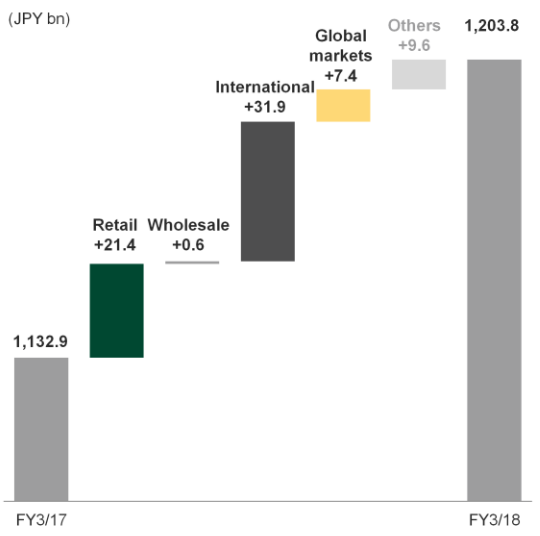
- Next, this slide explains our cost control measures.
- As shown on the left, our target is to reduce cost by ¥50 billion over the three years under the Medium-Term Management Plan through three key initiatives: "Business reform to improve efficiency," "Retail branch reorganization," and "Reorganization of group companies." Against the target, we were able to materialize ¥26 billion of reduction in the first year.
- In FY3/19, we will accelerate these measures and promote initiatives such as establishing a common system infrastructure for the Group and integrating back-office operations for each company to achieve further reductions.

Initiatives by business unit: FY3/2018 results

Focus

- **All four business units increased their net business profit in FY3/18**

Net business profit by business unit



Major initiatives for FY3/19

Retail	• Strengthen the wealth management business with high-net-worth clients on a group-wide basis • Accelerate the pace of branch reorganization
Wholesale	• Promote group-wide transformation to an earnings base that is not overly dependent on assets • Further strengthen operations to focus on improving profitability
International	• Strengthen global products and promote cross-selling to further improve asset efficiency • Take advantage of mid-to long-term growth in Asia through the Multi-Franchise strategy
Global markets	• Rebalance portfolio dynamically according to the environmental changes • Further enhance Sales & Trading to improve and stabilize profitability

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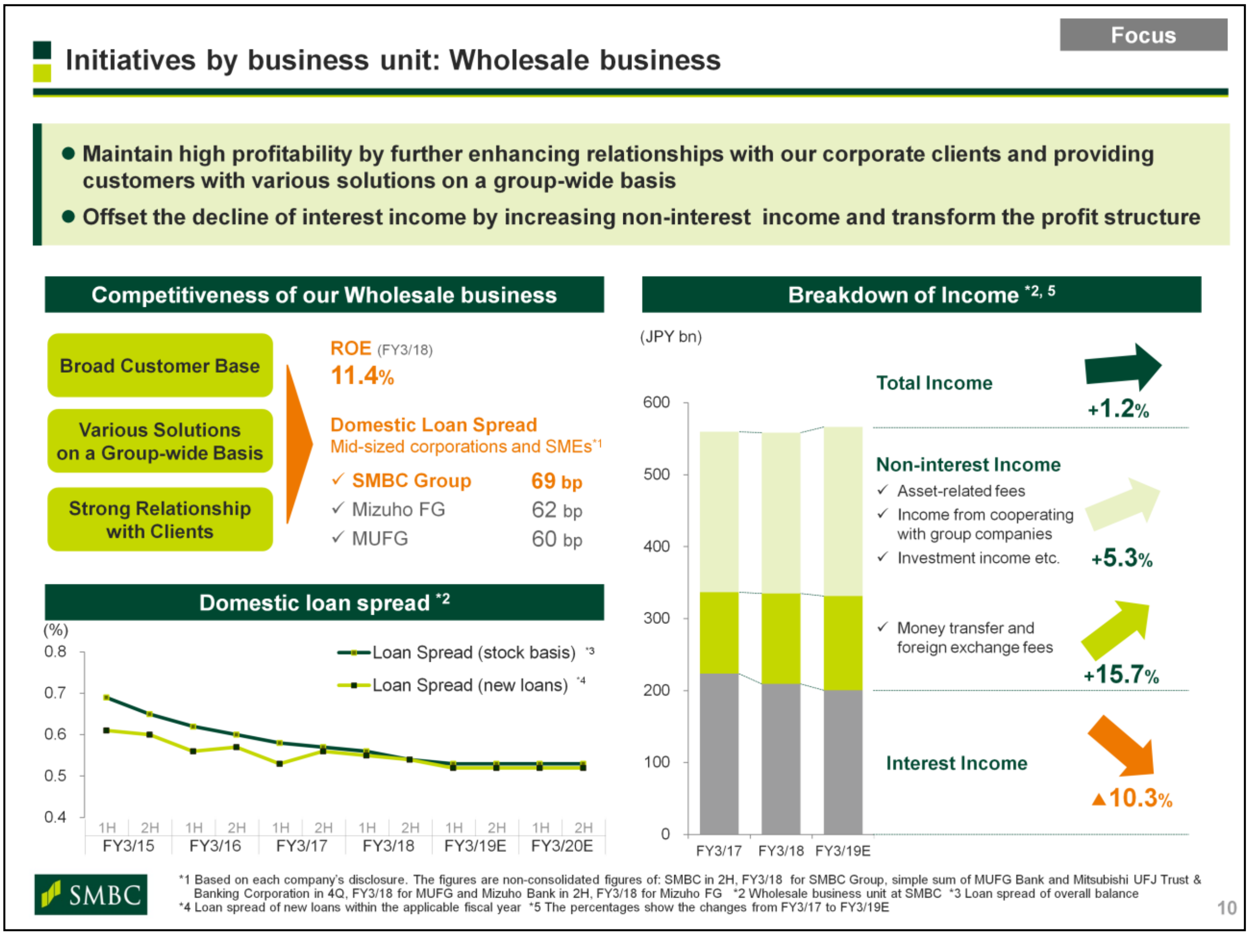
- Next, I will explain our initiatives for each business unit.
- The graph on the left shows changes in consolidated net business profit compared to the previous fiscal year. In FY3/18, all four business units achieved an increase year-on-year.
- In FY3/19, we will also strive to achieve our performance targets through major initiatives as shown on the right.
- From the next page on, I will talk about the wholesale and international business units.



- First, the wholesale business.
- We have a broad customer base of approximately 80,000 corporate customers and established a deep relationship with each customer by providing multi-solutions tailored to its needs.
- As shown on the top left, this strength leads to a high ROE of 11.4% and to the highest loan spread among the three Japanese megabanks.
- The trend of the domestic loan spread is shown in the bottom left.
- As the low interest rate environment continues, the loan spread has continued to narrow for several years. However, the loan spread on the overall outstanding loan balance and the spread on new loans are now almost at the same level. We therefore expect the loan spread to stop contracting in the not-so-distant future.
- In addition, we are also working to transform our profit structure.
- The right-hand side shows the gross profit of the wholesale business unit and its breakdown.
- While we expect interest income to decrease by about 10% compared to FY3/17, we are working to increase non-interest income such as stable fees from money transfer and foreign exchange transactions, income from cooperating with group companies and investment income. In a whole, we plan to increase total income in FY3/19 versus FY3/17.

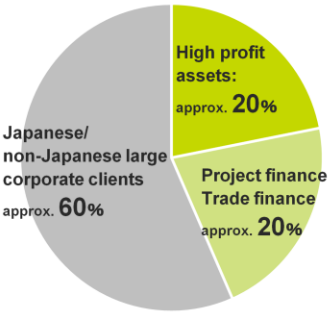
Focus

Initiatives by business unit: International business

- **Strengthen global products that we hold competitive advantages and promote cross-selling to further improve asset efficiency**
- **In Asia, expand profit by deepening relationship with core clients and capture the mid- to long-term growth in the region through the Multi-Franchise strategy**

Improve asset efficiency

Overseas asset portfolio



Promote cross-selling

- Loans·Deposits
- FX·Derivatives
- Financial Solutions
- M&A

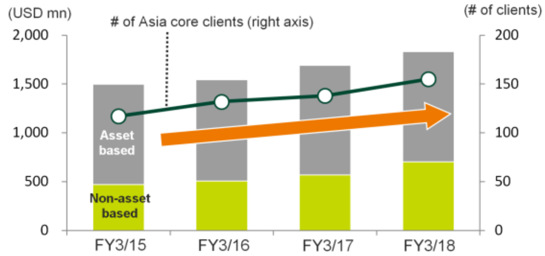
Strengthen global products

#4 global	Aircraft leasing
#5 global	Subscription finance
#3 UK	Middle LBO
#6 North America	Railcar leasing
#3 global	Project finance
#4 ECA	Trade finance

Asia-centric

➢ **Enhance non-asset based profit and expand customer base centered on transaction banking**

Profit and number of core clients in Asia



➢ **Merger of BTPN and SMBC Indonesia**

- ✓ Merger plan was submitted to the Indonesian local authorities
- ✓ Aim to complete the merger during 2H, FY3/19
- ✓ The merged entity will become our consolidated subsidiary
- ✓ Shift to a full-line commercial bank covering both wholesale and retail operations

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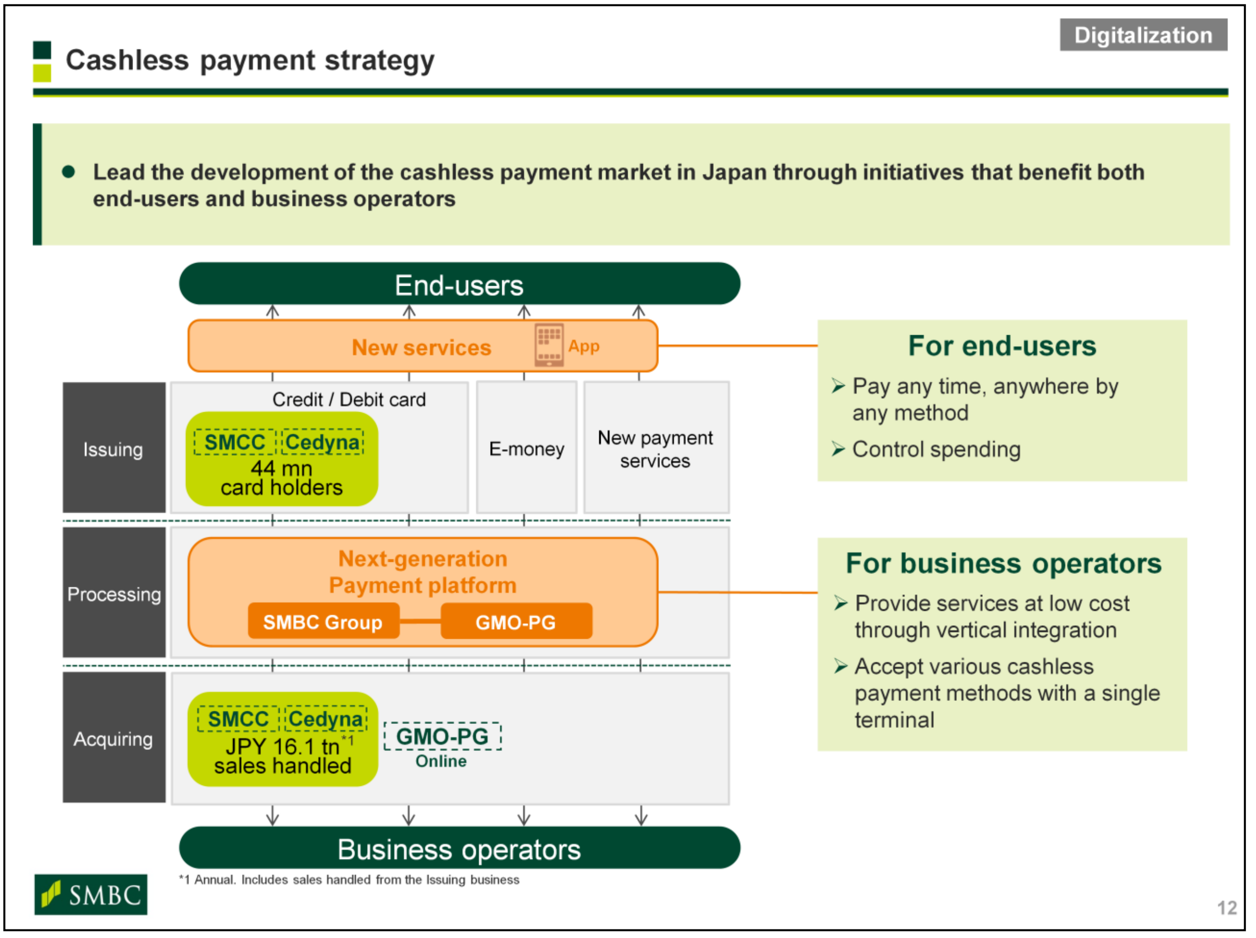
- Let's move on to the international business unit.
- Our efforts to improve asset efficiency are shown on the left.
- We are working to improve asset efficiency by rebalancing the portfolio in favor of global products such as high profit assets and project finance where we hold strengths. We are also promoting cross-selling such as securities transactions.
- The right hand side shows our strategy in Asia.
- As shown in the graph, the number of clients and profits of local blue chip companies are steadily increasing.
- In Indonesia, we are carrying on procedures with the relevant authorities for the merger of BTPN and SMBC Indonesia scheduled to be completed in the second half of this fiscal year, with the aim of developing a full-line commercial bank.



- This slide explains our cashless payment strategy.
- SMBC Group's strength lies in having leading players in the cashless payment field, i.e. Sumitomo Mitsui Card and Cedyna.
- By taking advantage of this strength, we will evolve the cashless payment market in Japan through initiatives that benefit both the business operators and end-users.
- For business operators, we are working to build a next-generation payment platform with GMO Payment Gateway which has a significant track record in the online payment market.
- We already have the top-tier status in Japan in the issuing and acquiring businesses. Furthermore, we will internalize the outsourced processing operations and vertically integrate the entire process related to the payment business.
- Through this initiative, we will aim to acquire new merchants and expand market share by providing services which accept various cashless payment methods with a single-terminal at low cost.

Governance

- **Enhance governance framework through Internal Committees**
- **Appointed SMBC Group Global Advisors in August 2018**

Board of Directors

Internal Director (executive)
7 directors

Internal Director (non-executive)
3 directors

Outside Director
7 directors

Expertise	
Management	3
Finance/accounting	1
Law	2
Diplomacy	1

Outside director
Internal director (executive)
Internal director (non-executive)
Outside experts
Chairman

Internal Committees

Nomination
Compensation
Audit
Risk (optional)

SMBC Group Global Advisors

- Appointed to provide advice on global business and on political and economic issues around the world

Name	Key Appointments
Dr. Andreas Dombret*1	A member of the Executive Board, Deutsche Bundesbank ('10-'18) Vice Chairman Europe, Bank of America ('05-'09)
Dr. Robert D. Hormats	Vice Chairman, Kissinger Associates ('13-Present) United States Under Secretary of State ('09-'13)
Mr. Andrew N. Liveris	Executive Chairman, DowDuPont Inc. ('17-'18) Chairman and CEO, The Dow Chemical Company ('06-'17)
Mr. Cesar V. Purisima	Secretary of Finance of the Republic of the Philippines ('10-'16) Secretary of Trade and Industry of the Republic of the Philippines ('04-'05)
Sir David Wright	Vice Chairman, Barclays Capital ('03-'17) British Ambassador to Japan ('96-'99)
Mr. Joseph Yam	A member of the Executive Council, Hong Kong SAR ('17-Present) Chief Executive of the Hong Kong Monetary Authority ('93-'09)

*1 The appointment will be effective from November 1st 2018

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- This slide shows our governance framework.
- We appointed seven outside directors with diverse knowledge and experience, and the ratio of outside directors in the Board of Directors exceeds 40%.
- All three statutory committees are chaired by outside directors.
- In August, we announced the establishment of SMBC Group Global Advisory Meeting which acts in advisory capacity to the Management committee.
- On August 21, the first meeting was held. The global advisors provided us with information of trends and developments in the financial sector. In addition, they provided insight in respect of political and economic issues relating to the formulation of strategy and key risks faced by SMBC Group.
- We will now move on to our capital policy.

III Capital Policy

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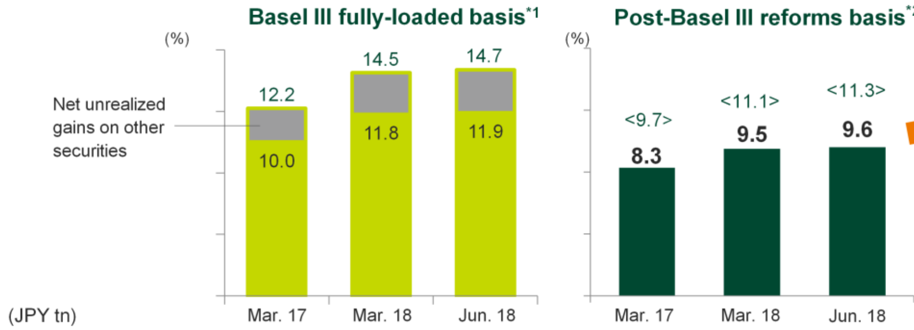
Capital position

- The Basel III reforms were finalized with a capital floor of 72.5%. The final impact of RWA inflation will be as expected
- We expect that CET 1 ratio is likely to reach our target of 10% by the end of Mar.19, one year ahead of the original target, through RWA controls including inorganic initiatives and accumulation of earnings

CET1 ratio



Expect to reach our target of 10% by Mar. 19

Factors to reach the target ahead of schedule

- Higher profits than expected (FY3/18, FY3/19 target) around +20bp
- Regional banks subsidiaries turned into equity method affiliates around +30bp — FY3/18
- SMFL turned into an equity method affiliate around +40bp — Nov. 2018

(JPY tn)	Basel III fully-loaded basis Mar. 17	Mar. 18	Jun. 18	Post-Basel III reforms basis Mar. 17	Mar. 18	Jun. 18
Risk-weighted assets (RWA) (Excludes RWA associated with net unrealized gains on stocks)	70.6	63.5	64.0	88.8 (85.6)	82.4 (78.7)	82.9 (79.0)
CET1 capital (o/w net unrealized gains on other securities)	8.68 (1.54)	9.22 (1.69)	9.43 (1.78)	8.68 (1.54)	9.22 (1.69)	9.43 (1.78)

*1 Based on the definition applicable for Mar.19
*2 Calculated with RWA inflated by 25% compared to the current Basel III fully-loaded basis. Figures in < > are calculated with CET1 including net unrealized gains on other securities and RWA including RWA associated with net unrealized gains on stocks

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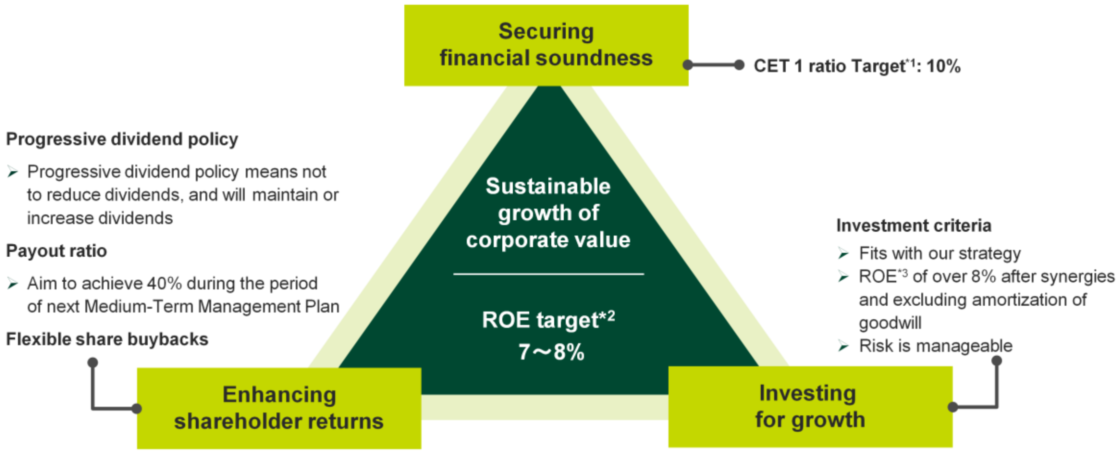
- This slide illustrates our capital position.
- As shown on the right, the CET1 ratio on the post-Basel III reforms basis which excludes unrealized gains on securities was 9.6% at the end of June 2018.
- We expect to reach our target of 10% by the end of FY3/19, which means we will attain our Medium-Term Management Plan target one year ahead of the schedule.
- This is due to the fact that our consolidated net profit in FY3/18 and FY3/19 target are higher than our targets in the Medium-Term Management Plan and that we are undertaking RWA control measures including inorganic measures such as turning regional bank subsidiaries and the leasing company into equity-method companies.

Basic capital policy

- **Achieve a healthy balance among securing financial soundness, 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 assuming our financial soundness is maintained**
  - We aim to pay progressive dividends supported by our sustainable earnings growth, and achieve a payout ratio of 40% during the period of the next medium-term management plan
  - We will execute share buybacks as and when appropriate taking into account the factors such as our capital position, earnings trends, stock price, growth investment opportunities and an improvement of capital efficiency



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*1 Calculated with RWA inflated by 25% compared to the current Basel III fully-loaded basis due to the final impact of Basel III reforms. CET1: excludes net unrealized gains on other securities. RWA: excludes RWA associated with gains on stocks *2 On a stockholders' equity basis *3 Managerial accounting basis with RWA calculated assuming Basel III reforms are finalized

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- Let's move on to our basic capital policy.
- In the past, we have prioritized strengthening our capital base assuming tougher international regulations, but we believe we have reached the stage where focus can be put on enhancing shareholder returns and investing for growth now that regulatory uncertainty has cleared and we are on track to attain our CET1 ratio target. In light of these circumstances, the Board of Directors held thorough discussions and announced our updated capital policy in May as shown on the slide.
- Our basic policy is to achieve a healthy balance among securing financial soundness, enhancing shareholder returns, and investing for growth.
- Dividends are our principal approach to shareholder returns, but we will also proceed with share buybacks on a flexible basis.
- With regard to dividends, we aim to pay progressive dividends supported by our sustainable earnings growth, targeting a dividend payout ratio of 40% during the period of the next Medium-Term Management Plan starting from April 2020.
- We will also conduct flexible share buybacks assuming our financial soundness is maintained, taking into consideration our capital position, earnings trends, share price, growth investment opportunities and other factors.

Shareholder Returns announced in May 2018

- **Dividends: FY3/18: JPY 170 (YoY +JPY 20; vs initial target +JPY 10) ; FY3/19 target: JPY 170**
- **Share buybacks: JPY 70 billion (all of the repurchased shares were cancelled)**
  - The above reflects our expectation that CET1 ratio is likely to reach our target of approx. 10% by the end of FY3/19 through controls of risk-weighted asset including inorganic initiatives and accumulation of earnings; and the outperformance of profit attributable to owners of parent in FY3/18 versus our initial target announced in May 2017 and the expectation of robust business performance to continue in FY3/19

Overview of shareholder return initiatives

(JPY)	FY3/18	YoY	vs. May 2017 target	FY3/19 target
Dividend per share	170	+ 20	+10	170
Dividend payout ratio	32.7%	+2.8%		34.3%
Profit attributable to owners of parent	734.4 bn	+ 27.8 bn	+ 104.4 bn	700 bn
Share buybacks	70 bn			
(Ref) Total payout ratio	42.2%			

Outline of the repurchase and cancellation of own shares

Aggregate amount repurchased	JPY 70 bn
Aggregate number of shares repurchased	15 mn shares (Equivalent to 1.1% of the number of shares issued excluding treasury stock)*1
Repurchase period	From May 15, 2018 to June 19, 2018
Cancellation date	August 20, 2018

*1 Number of shares issued (excluding treasury stock): 1,410,558,422 shares; number of treasury stock: 3,884,968 shares; as of March 31, 2018

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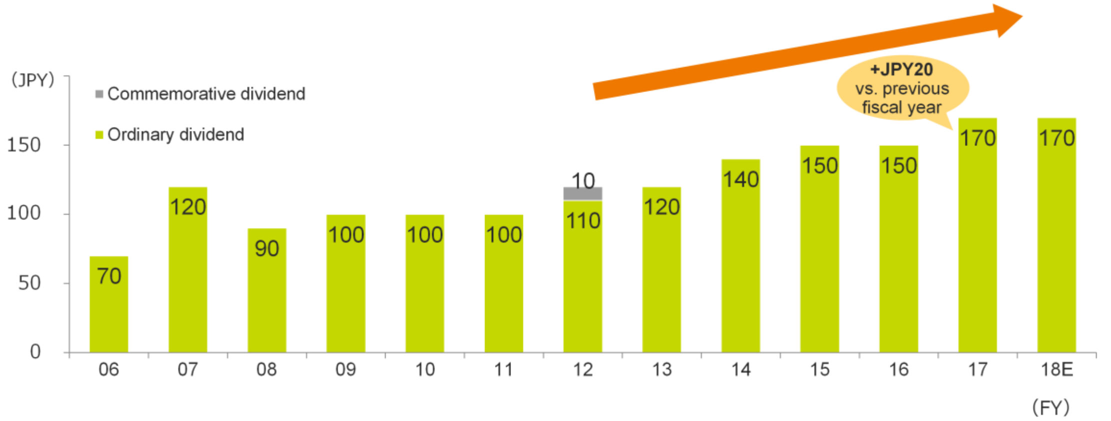
- This is the shareholder returns announced for FY3/18 and FY3/19.
- We increased our dividend per share for FY3/18 by ¥20 year-on-year, higher than our initial forecast by ¥10.
- In FY3/19, we will maintain the level of ¥170 per share despite a decline being forecasted in profit attributable to owners of parent.
- In addition, we conducted share buybacks of ¥70 billion.
- All shares repurchased were cancelled.

(Ref) Dividends per share*1,2



Dividend payout ratio*3	12.5%	20.5%	-	46.8%	30.0%	26.8%	21.3%	20.3%	26.2%	32.7%	29.9%	32.7%	34.3%
ROE*4	13.8%	15.8%	-	7.5%	9.9%	10.4%	14.8%	13.8%	11.2%	8.9%	9.1%	8.8%	

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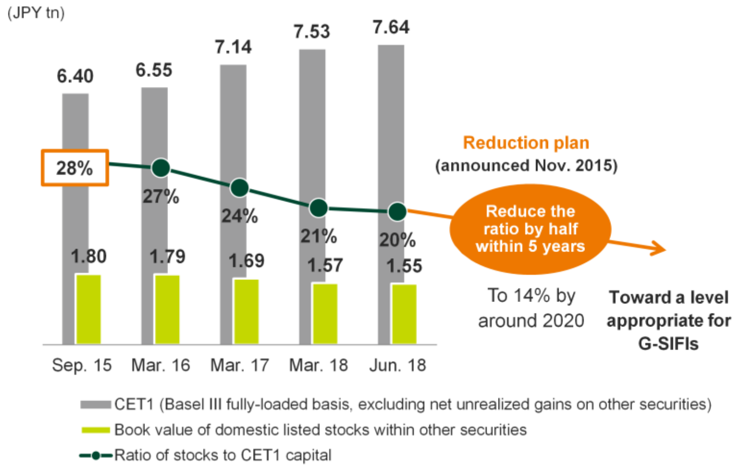
*1 SMFG implemented a 100 for 1 stock split of common stock on January 4, 2009. Figures shown above reflect the stock split, assuming that it had been implemented at the beginning of FY06 *2 Common stock only *3 Consolidated payout ratio *4 On a stockholders' equity basis

Strategic shareholdings

- Aim to halve the ratio*1 of stocks to CET1 during the five years starting from the end of Sep. 2015
  - Reduce the book value of domestic listed stocks of up to about 30%, or about JPY 500 bn (JPY 100 bn per year)
- Reduction is progressing as planned

Strategic shareholdings and reduction plan (Consolidated basis)



Reduction results

1Q, FY3/19	approx. JPY 20 bn
(since Sep. 2015	approx. JPY 250 bn) - (1)

Consent of sales from clients outstanding

Jun. 2018	approx. JPY 100 bn - (2)

(1) + (2) = approx. JPY 350 bn

*1 Consolidated basis: Book value of domestic listed stocks/CET1 capital (Basel III fully-loaded basis, excluding net unrealized gains on other securities)

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- This slide shows our strategic shareholdings.
- We aim to halve the ratio of the book value of domestic listed stocks to CET1 to 14% during the five years from the end of September 2015, or reducing by ¥500 billion on a book value basis.
- We are making steady progress.
- In the first quarter, we reduced ¥20 billion and totaled ¥250 billion since the end of September 2015.
- On top of that, we have also gained consent to sell from clients for a further ¥100 billion (outstanding as of end-June 2018), bringing the total to ¥350 billion.
- We will continue to reduce strategic shareholdings according to the plan to control the impact of share price fluctuations on capital and to take into account the purpose of the revised Japan’s Corporate Governance Code.

Key takeaways

- **Made good progress in the 1Q, FY3/19**
- **Accelerate the Medium-Term Management Plan to become a financial group with high quality**
- **Focus can be put on "enhancing shareholder returns" and "investing for growth" as we are on track to attain our CET1 ratio target**

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- Finally, here are the key takeaways of today's presentation.
- I sincerely ask for your continued support and understanding.
  Thank you.