

SMBC GROUP CIO/CDIO Small Meeting

Presentation summary / Major questions and answers

Group CIO and Group CDIO

Katsunori Tanizaki

1. Presentation summary

I. Digitalization Strategy

SMBC Group is promoting digitalization in four areas: (a) digital innovation, (b) digital transformation as “proactive digitalization” and (c) digitization, (d) IT infrastructure as “defensive digitalization.” We are promoting these initiatives from the perspective of (1) Customer, (2) Value, (3) Technology, and (4) Approach, with particular focus on providing services from the customer's point of view. Although initiatives toward retail-related services stand out at present, we plan to expand the strategy to the wholesale and overseas businesses.

In addition, we are promoting data strategy according to the purposes of each type of data.

II. Major initiatives

- Cashless payment strategy

SMBC Group aims to take an initiative in promoting cashless payment in Japan by improving the convenience for both business operators and end-users. For business operators, we are working with GMO Payment Gateway to build a next-generation payment platform that accepts various payment methods. For end-users, we are working to enhance cashless payment services based on the three pillars of "Convenient," "Safe and secure," and "Beneficial."

- Information bank

We are working on preparation for establishing an “Information Bank”, which is an agent of managing personal user’s data. We will make the ecosystem economically independent and pursue market development. The Ministry of Internal Affairs and Communication selected our proposal on medical records for a verification project and we are working on demonstrating its feasibility.

- BTPN digitalization

In Indonesia, we are developing mobile/digital banking services with BTPN. We are also working with BTPN to consolidate their branches through digitalization.

III. Open Innovation

In order to create innovation, we believe it is necessary to form a place to explore/develop technologies and ideas. In 2017, we opened "hoops link tokyo" in Shibuya as a place where diverse domestic and overseas players can get together casually. One year has passed since its establishment and there have been more than 10,000 visitors and about 220 events were held.

In terms of blockchain technology, we consider that its technical value is high from the viewpoint of distributed ledger technology rather than using it for crypt currency, and we are conducting field tests in order to demonstrate its feasibility.

In addition, we established Advanced Technology Laboratory at the Japan Research Institute, our group company. The lab conducts research and verification on advanced technologies. We utilize them to promote digitalization within SMBC group.

IV. IT Investment

The total amount of IT investment is expected to decrease in the current Medium-Term Management Plan since the large renewal of systems was completed in the previous Medium-Term Management Plan. In the meantime, we will further allocate our resources to "strategic investments"; investments for business innovation through digitalization and the creation of new business.

Since we consider post assessment is important for IT investment, we review performance by project as well as by system for disciplined investment and visualization of its benefit.

For the development of IT infrastructure, we promote integration and efficiency of the core systems on a group basis. We have also established a policy for the use of cloud and are actively utilizing it.

Regarding AI, we are already utilizing it on a practical basis, such as for the support of our contact center operations. We are also collaborating with other companies in terms of API connection such as providing API connection service of internet banking at SMBC. Going forward, we will continue to promote further collaboration using API opened by other industries and provide new services utilizing various forms of data.

In addition, we are proactively working to upgrade governance structures and personnel development on a group basis.

V. **Cyber Security**

SMBC Group sets cyber risk as one of the top risks of management. We are implementing management-led initiatives such as sharing information on attackers' methods and system vulnerability with outside parties on a daily basis, discussing regularly and verifying those information at the meeting of the Board of Directors.

As we believe that personnel training is important in cyber security, we are working on the development of highly-skilled security personnel to support group companies and security education for general executives and employees to improve IT literacy.

2. Major questions and answers

Q1. How do you fight against FinTech companies when promoting digitalization?

A1. Since our relations with FinTech companies change according to the area where we compete or collaborate, we believe that not all existing financial institutions will be eliminated by the rise of FinTech companies. We should consider strategies individually on a business to business basis.

We believe that technology evolution is an opportunity to provide new services to our customers rather than being a threat. We think we can expand into new business areas such as the information bank described in the presentation. I believe that the financial business will become an information business in the future, and financial institutions are being challenged to see whether they can cope with the change.

Q2. Compared to other financial institutions, what is your take of SMBC Group's IT investments (annual budget of 150 billion yen)?

A2. When comparing the scale of IT investment, it is necessary to consider differences in the business areas of each financial institution. If you are a financial institution with retail business operations around the world, it is natural that you need a considerably large scale of IT investment. If we expand our retail business on a global basis in the future, then a larger IT investment will be required. Needless to say, we will continue to operate efficiently through our initiatives to control IT-related expenses, such as curbing running costs, sharing systems on a group basis, and introducing efficient development techniques.

Q3. Do you plan to move the core banking system to the public cloud?

A3. We use the public cloud in certain areas such as the credit risk calculation systems which require large amounts of calculations, but we do not intend to put ledger files of customer deposits on the public cloud for now.

We believe that banks are highly responsible for managing deposits for depositors and need to keep ledger files of customer deposits properly on our own data center.

However, in the future, we would like to consider the use of public cloud systems for the core systems as the technology and security advances.

Q4. What is the SMBC Group's policy on QR-coded payment?

A4. At this point, it is difficult to judge whether QR-code payment will dominate the payment market as in China or remain as just one of the payment methods as in the United States.

One of the aims of our cashless payment strategy is to create a mechanism that can accept various payment methods rather than just one method.

This document contains "forward-looking statements" (as defined in the U.S. Private Securities Litigation Reform Act of 1995), regarding the intent, belief or current expectations of us and our managements with respect to our future financial condition and results of operations. In many cases but not all, these statements contain words such as "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "probability," "risk," "project," "should," "seek," "target," "will" and similar expressions. Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ from those expressed in or implied by such forward-looking statements contained or deemed to be contained herein. The risks and uncertainties which may affect future performance include: deterioration of Japanese and global economic conditions and financial markets; declines in the value of our securities portfolio; incurrence of significant credit-related costs; our ability to successfully implement our business strategy through our subsidiaries, affiliates and alliance partners; and exposure to new risks as we expand the scope of our business. Given these and other risks and uncertainties, you should not place undue reliance on forward-looking statements, which speak only as of the date of this document. We undertake no obligation to update or revise any forward-looking statements.

Please refer to our most recent disclosure documents such as our annual report on Form 20-F and other documents submitted to the U.S. Securities and Exchange Commission, as well as our earnings press releases, for a more detailed description of the risks and uncertainties that may affect our financial conditions and our operating results, and investors' decisions.