

SMFG IR DAY

Presentation summary / Major questions and answers

1. Retail Business Unit

Senior Managing Executive Officer, Yukihiro Ohnishi

(1) Presentation summary

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- The Retail Business Unit consists of the retail businesses of SMBC, SMBC Nikko Securities (SMBC Nikko) and SMBC Trust (SMBC Trust) together with the three consumer finance companies, which are Sumitomo Mitsui Card (SMCC), Cedyne and SMBC Consumer Finance. The total number of customers adjusted for duplications is 43 million and total employees are 50,000.
- The balance of investment products is top among the three megabanks at ¥45 trillion. We are also the leader in terms of foreign currency deposit balance (¥1.4 trillion), credit card transaction volume (¥15 trillion), and card loan balance (¥1.8 trillion) in Japan. SMFG is among one of the largest retail finance groups in Japan.

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- Negative business conditions include structural barriers in making profit, such as the difficulty of securing profit margins in the negative interest rate environment and falling fees and commissions on investment products. Positive factors include the shift of funds from savings to asset building and wealth management, and progress with the cashless trend.
- Another factor to consider is digitalization. Many see FinTech as a threat, but we consider digitalization to be an opportunity, because it improves customer convenience while reducing costs.
- In this context, we are focusing on three strategies. First, we are promoting the wealth management business through the bank-securities integration model. Second, we are progressing business model reforms by harnessing digital technologies and all-round group-wide capabilities in all aspects including the card, consumer finance, mortgage loan businesses. Third, we are reforming our cost structure.

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- In the wealth management business, we have made two major strategic changes in the past two years.

- First, we have changed to a more customer-focused wealth management business model from a model where we were earning upfront fees from a limited number of customers. We now suggest to our customers a stable and diversified investment portfolio with a medium- to long-term focus to fulfill a more broad-based need to protect customers' assets.
- Second, is our bank-securities integration strategy. We have developed a sales and marketing model that combines SMBC Nikko's sophisticated investment service with SMBC's extensive wealth management service by referring SMBC customers to SMBC Nikko, while each customer's contact at both companies communicates with each other closely.
- The graph on the top left shows trends in the balance of assets under management by SMBC and SMBC Nikko adjusted for market fluctuations. The balance has increased 22 months in a row since we made a major change of direction in July 2015 to seek for "increased profitability via recurrent businesses." Bank-securities integration has been the growth driver. The number of new accounts opened with SMBC Nikko by customers referred by SMBC totaled 110,000, resulting in a sharp increase in assets under management from these customers.
- We are also focusing on the investment trust monthly purchase plan. The fund balance is growing at a rate of ¥2.5 billion per month and ¥30 billion per year as a result of harnessing our over-the-counter consulting capability. We believe we can expand the base for our recurrent businesses by sustaining this performance.

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- Our basic strategy in the wealth management business going forward is to accelerate our existing strategies.
- As reported by newspapers last week, SMBC is developing new products with Amundi Japan Ltd. and plans to begin selling what is essentially Japan's first investment trust with a floor protection in July. We wish to strengthen sales of investment products offering stable returns to cultivate new customer segments.
- In bank-securities integration, we are further clarifying the respective roles of SMBC and SMBC Nikko. SMBC Nikko is strengthening transactions with large-lot, high-net worth customers, while SMBC is working to broaden its customer base for the wealth management business.
- Integration of SMBC and SMBC Nikko in the past three years has been front office-driven, with the two companies' front-office employees routinely communicating with each other at all sales offices and visiting customers together. In the spring of 2017,

a branch manager of SMBC Nikko was appointed area branch manager of SMBC. As well, around 400 SMBC Nikko's sales people have relocated to SMBC. In this way, we are working together as a group business unit.

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- The credit card business is a growing market and is an area of strength for SMFG.
- SMCC in particular has the edge in the number of member merchants and contactless iD payment terminals. We believe SMCC's presence will grow amid the shift to a cashless society.
- The main points of our credit card business strategy are integrating the operations of SMCC and Cedyne, and of SMCC and SMBC. For example, SMCC issues debit cards, but features include payments from SMBC's savings accounts and access to bank and credit card statements using a smartphone app, which means the two companies' services are integrated already from the customer's perspective. We intend to begin offering Japan's first contactless IC debit card service with a touchscreen function via iD in Japan and Visa PayWave overseas. SMFG wants to be a leader in the shift to cashless transactions.

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- Our strength in the consumer finance business is having three brands—SMBC, Mobit, and Promise. Our focus is on making the most of Mobit, which is the only consumer finance brand among the peers recognized as a bank-affiliate. Our branding strategy also calls for bringing SMBC and Mobit closer.

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- Branch reorganization: We are planning to reorganize all branches around the country into next-generation branches. We are pursuing three-pronged reforms, firstly to change the way we provide services to customers and, secondly change administration processes, thereby thirdly revolutionizing the concept of retail branches.
- What specific steps are we taking? First, we will guide customers visiting branches to remote channels and self-service terminals such as ATMs. We plan to guide some 70% of retail customers, and some 50% of all the customers, including corporate clients, visiting our branches to remote channels and self-service terminals, while making over-the-counter services paperless with digital technology.
- The administrative functions of branches will be transferred to nine administration centers around the country to centralize back-office operations. These administration

centers will be rigorously streamlined by incorporating Artificial Intelligence (AI) and other technologies.

- As a result, branches will have fewer counters and reduced office space, which makes it possible to make them much smaller or increase consulting space.
- Although this will require capital investment (including IT investment) of more than ¥50 billion, we estimate an annual cost saving of ¥30 billion in FY3/2022. In FY3/2020, the final year of our current medium-term management plan, we expect to make a profit after capital investment.
- We estimate a reduction of around 2,000 branch employees, breaking down into a net reduction of 1,000 and 1,000 relocated to administration centers. Going forward, however, we foresee a further operational efficiency at administration centers. Consequently, we expect a reduction in the number of administrative staff at administration centers as well, which means an even larger net reduction effect.
- We are also working on reducing rent and other real estate expenses. Relocating around 50 branches in high-rent areas will produce savings of around ¥6 billion in FY3/2020.
- Although we will close some branches depending on the location, our intention is not to make a big cut in the number of branches. Japanese banks do not have many branches by international standards. We believe the matter is not the number of branches but the services they provide.
- In conjunction with branch reorganization, we will push ahead with end-to-end digitalization of administrative processes.

(2) Major questions and answers

Q1. Please explain the details of the branch reorganization.

A1. As for branch reorganization, we plan to invest more than ¥50 billion, while achieving cost reduction of ¥20 billion in FY3/2020, which is the last year of our mid-term management plan, and ¥30 billion in FY3/2022. On a net cost reduction effect reflecting the investment cost, it is expected that it will turn positive on a single year basis in FY3/2020, and it will turn positive on an accumulative basis in FY3/2021.

We also plan to transform all of our branches into “next-generation branches” in three years, but this is not the goal. It will be essential to downsize the total space of each branch by encouraging customers to use remote services and automated devices such as ATMs taking into consideration of the cost-effectiveness.

Q2. Please explain the detailed breakdown of the increase in the Retail Business Unit's gross profit for the next three years.

A2. Breaking it down by business lines, we plan to increase gross profit of the wealth management business by ¥20 billion, consumer finance business by ¥40 billion, and credit card business by ¥45 billion during the mid-term management plan. As for the Retail Business Unit as a whole, the increase of gross profit will be limited to ¥68 billion because of structural factors including the impact from negative interest rates. In addition, we expect variable costs linked to revenues will increase in the credit card business, therefore limit the increase of net business profit to ¥15 billion.

Q3. There are foreign banks which place the private banking business as a highly profitable and stable revenue source. Please explain SMFG's strategies of the private banking business.

A3. SMBC, SMBC Nikko and SMBC Trust are the entities within the Group engaged in the private banking business. Particularly, private banking business at SMBC has a unique business model which provides services for the retail business owners on the back of the wholesale corporate business. We aim to strengthen this business by focusing on meeting the demands of our customer's wealth management needs, which is the business model for foreign banks. As to the upper high-net-worth individuals, SMBC Nikko has been serving high-end customers with services no inferior to that of the foreign banks. As an example, SMBC Nikko is the first in Asia to introduce risk management technology, "Aladdin®", to their customers. In doing so, we will further enhance our bank-securities integration business model.

Q4. Please explain the strategies of mortgage loan business.

A4. We think it is not the time to greatly increase the mortgage loan balance, because the loan spread is declining and the international financial regulations are to be intensified. However, we believe mortgage loans are an essential product in terms of doing business with high valued customers. Therefore, we will pursue efficiency by digitalizing end-to-end process and aggregating operations to digital channels or call centers. This will improve the profitability by 4-5 basis points. We will provide high valued customers with mortgage loans at a competitive interest rate and

promote cross-selling. We will aim to raise profitability by improving the overall efficiency.

2. Wholesale Business Unit

Deputy President and Executive Officer, Manabu Narita

(1) Presentation summary

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- The Wholesale Business Unit consists of four companies—megabank SMBC, one of Japan's three major securities firm SMBC Nikko, top-tier leasing company SMFL, and SMBC Trust. It is a core business of SMFG that is responsible for roughly a third of the four business units' combined net business profit.

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- Three years ago, at the beginning of the previous medium-term management plan, we began the domestic operational reform, which was to restructure our sales force by market segmentation according to customer attributes and needs, to build the best-in-class earnings base in Japan.
- We promoted the Global Corporate and Investment Banking (G-CIB) model for doing business with major global corporate clients, combining our knowledge of business sectors and the know-how of SMBC and SMBC Nikko. We transferred the business with smaller companies to the Retail Banking Unit of SMBC, differentiating our services from our competitors with the "One to One" model, working individually with each customer and constantly applying the keyword "customer-centric" to change the awareness and behavior of our employees. As a result, we are confident that we have made solid progress toward establishing a highly efficient business base.

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- In terms of the results we have achieved so far, first, we have been able to diversify our revenue sources. Declining spread income from loans and deposits has been offset by a ¥51 billion increase in flow earnings.
- Second, we have established multiple ways of responding to customer needs. Revenue from collaboration between the main group companies and SMBC in the wholesale business has increased by a sharp ¥19 billion.

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- Third, we are expanding our customer base.
- We previously tended to focus on customers with possible funding events and generate loan related profits from them. After the domestic operational reform, however, we have stepped up our approach to also net depositors, whom we had been reluctant to engage with in the past, using business succession and securities business as a hook to expand our customer base.
- The number of core customers with whom we make revenues of over ¥100 million increased by about 70 companies or 20% in three years, while the total number of borrowers grew by more than 1,000 companies.
- Succession planning has become the main concern of the customers at a time when the average age of Japanese company presidents is 60 and 40% of those in their 70s have not named a successor. Our “One to One” business model seeks to work closely with customers to develop a genuine, customer-centric partnership. Business succession is a major event for customers, where gaining trust from the customers is crucial. We think that the increase of number of proposals and loans for business succession are evidences that we have been able to expand our customer base under the “One to One” model during the past three years.

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- Among the seven core strategic business areas identified in the medium-term management plan, the following two strategies are priorities for the Wholesale Business Unit.
- First, we plan to identify multiple priority business areas and take the “One to One” approach to a new level through group-wide collaboration to build on our lead position in the medium-sized enterprise market.
- Second, we aim to increase our market share in Corporate and Investment Banking in key global markets through our group-wide and global integrated business model. Going forward, we will upgrade our current group-wide collaboration from a deal by deal collaboration to a customer-based collaboration, i.e., sharing ways to approach each customer globally within the group to generate projects and support our large corporate customers’ dynamic business activities.
- To this end, we intend to allocate management resources with an even sharper sense of priorities than before, selectively putting risk-weighted assets into profitable projects and those with potential for future cross-selling. At the same time, we will leverage SMFG’s diverse functions and products to control our risk-weighted assets within the group.

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- We will now discuss the five priority businesses while providing specific examples.
- First, we want to help start-up companies and growing industries. SMFG's strengths in this area are seamless, group-based assistance for start-up companies and efforts to actively build a network of external organizations that support start-up companies.
- SMFG established "III" (Triple I), a cross-industry consortium that runs the Mirai business pitch competition, which started in 2016. We have been supporting business incubation to financing to one of the start-up companies that won an award in the robot and AI section of the competition by making use of our Group's full network including business strategy consulting by the Japan Research Institute, forming alliances with global large companies that do business with SMBC, setting up an AI analytics center in coordination with a local government, and receiving investment from SMBC industry-academia collaboration fund.
- In addition to supporting start-up companies, SMFG has multiple cross-organizational and group-wide project teams working primarily on specific initiatives in growing industries such as healthcare, energy/environment, IT innovation, and tourism.

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- The second is the private banking (PB) approach.
- Owners of privately-held corporations are, at the same time, managers, shareholders, high net worth individuals, and heads of households. We see opportunity for expanding our business with privately-held corporations by approaching owners from both the corporate and private banking angles.
- We aim to expand the PB business by developing close, long-term working relationships between private bankers and customers, and making use of group companies' expertise in addition to offering diverse services including succession planning and corporate transactions such as public offerings and M&A.
- The third is enhancing corporate value by utilizing private equity (PE) funds.
- Investment by PE funds has recovered to the level before the global financial crisis in terms of both the number of investments and investment value. More owner-managers are open to working with PE funds as a solution to succession and other management issues. SMFG's sponsor business-related revenue increased to around ¥30 billion in the previous fiscal year. There are many cases where PE funds invest in global corporations' carve-out deals (selling parts of their businesses). We therefore expect accelerating growth of the PE fund business.

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- The fourth is the real estate business.
- SMBC Trust began offering an asset management business this fiscal year, completing the Group's real estate-related business lineup and enabling us to offer an integrated real estate solution package.
- And finally, the fifth is G-CIB (Global Corporate and Investment Banking).
- SMFG as a group will support large corporate clients with our group-wide and global integrated business model in banking and securities both in Japan and overseas.
- A good example of the G-CIB model in action is a case where we deepened our business relationship with a globally operating Japanese manufacturer. Our banking relationship with this customer used to be at a low-tier until five or six years ago. During the previous medium-term management plan, SMFG set goals and shared concrete measures in developing our banking relationship with this company, and established a group-wide system for doing business with this company. Starting with basic steps such as business referrals in Japan, SMFG also tackled their overseas projects head-on, now becoming such an important resource for the customer that they would insist on consulting with SMBC when regarding overseas projects. In this way, SMBC has now become one of their core banks.
- Our latest medium-term management plan calls for a group-wide initiative to identify customers that we want to deepen business relationships with and prioritize the allocation of management resources to these customers. We are focusing on deepening business relationship with these customers by promoting our proposals for their diverse businesses both in Japan and overseas.

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- One of the strengths of our wholesale business is our "on-site capabilities." In addition to Corporate, Private, and Global Advisory Divisions / Department, SMBC has established the "double-front" system where departments with broad expertise and experiences including the Strategic Corporate Business Department work with the front-office teams to help improve customers' corporate value.
- Our "on-site capabilities" is the sum of our marketing staff's sales capability and specialist skills of the double-front teams. Having transitioned to a business unit structure, our vision is for the double-front teams to function as One Advisory and build a system where we can jointly serve our customers in priority business areas and further strengthen our "on-site capabilities".

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- An outlook of contracting loan margins seems inevitable in the next three years, but SMFG aims for further improvement of business efficiency by enhancing group synergies made possible by the group-wide business unit structure.
- The KPIs of the medium-term management plan will not be easy to achieve, but the Wholesale Business Unit will strive to improve on its strengths of speed, spirit of challenge, and excellence of marketing staffs, work closely with each and every customer, and thereby to grow with our customers, and ultimately help Japan's economy prosper.

(2) Major questions and answers

Q1. Please explain why the ROE of the Wholesale Business Unit in FY3/2020 will remain flat compared to that in FY3/2017.

A1. We expect that our net business profit will increase mainly driven by non-interest income growth, while our credit cost will rise as it swings back to its normal level, resulting in a slight decrease of our bottom-line profit. On the other hand, our equity based on the allocated risk weighted assets will decrease by further prioritizing profitability of assets and reducing strategic shareholdings, therefore leaving our ROE at the same level.

Q2. Please explain your views on the demand and spread outlook for domestic loans during the medium-term management plan.

A2. We expect that, if the current interest rate environment continues, loans for large corporations will decrease mainly because of the ongoing shift to direct financing, although there would be demand for large M&A bridge-loans to some extent. On the other hand, we expect that loans for mid-sized corporations and SMEs will slightly increase because the negative interest rates policy will increase the proportion of long-term borrowing and decelerate the repayment schedule. As a whole, we expect the total loan balance to gradually increase during the medium-term management plan.

Although we expect that the loan spread will continue to gradually decline (by 5 bp in FY3/2018 and by about 2bp each year in FY3/2019 and FY3/2020), we plan to minimize the impact by providing high value-added loans.

Q3. Please explain the points that you, as head of the business unit, look into when it comes to managing the group companies within the business unit.

A3. Previously, SMBC had been taking the central role in pursuing synergies among group companies like a “hub and spoke” structure. Going forward, we would like to collaborate among the group companies as one group and create a “chain” structure. Thus, as head of the business unit, I will take the role to create a clear structure to mitigate gaps among group companies in the five core business areas. We are revising the budget and evaluation plans based on the idea of sharing the customer base and creating a corporate culture to respect each other among employees.

Q4. Please explain how you plan to control the risk-weighted assets of the Wholesale Business Unit under the new international financial regulations.

A4. We are now trying to control assets as much as possible by originating Collateralized Loan Obligations (CLOs) and negotiable loans in order not to lower the momentum at the marketing units. In addition, we will strictly manage profitability looking at the overall business relationship we build with our customers by building an account plan for each customer to provide loans that can lead to non-loan related ancillary businesses.

3. International Business Unit

Deputy President and Executive Officer, Yasuyuki Kawasaki

BTPN President Director, Jerry Ng

(1) Presentation summary

(i) Presentation from Yasuyuki Kawasaki

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- We achieved earning targets of our previous medium-term management plan in two years as a result of progress with bank-securities integration such as winning roles in large M&A-related financing deals, and growth of the asset finance business including aircraft and railcar leasing.
- Companies that we invested in have made steady progress toward becoming earnings drivers of the International Business Unit by contributing to consolidated financial

earnings and equity-method profit. With a skilled management team led by President Jerry Ng, BTPN is making a stable contribution to equity-method profit as well as generating synergies with Sumitomo Mitsui Indonesia as they share the same building.

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- As the first stage of our Asia-centric strategy, we started building a platform and business base in the region. We have deepened our business relationship with core customers such as prime local corporations and growth companies in Asia, as reflected in steady growth in revenue from our core clients. The loan-to-deposit ratio has also improved due to an increase in customer deposits.
- In Indonesia, where we are implementing the multi-franchise strategy, we have been switching offshore transactions that were done in Singapore to onshore transactions by hiring a team with an established network in Jakarta. As a result, our earnings and business base in Asia showed a solid increase, as reflected in gross profit and the number of customers roughly doubling in the previous medium-term plan period.

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- The International Business Unit established three core policies that are aligned with Discipline, Focus, and Integration.
- First, we are taking our main strategies to the next level including (a) integrating operations of bank, securities, and leasing businesses, (b) the asset finance business such as aircraft and railcar leasing and associated asset turnover (O&D) and (c) initiatives taken to become an Asia-centric institution.
- Second, we will concentrate on building a foundation for businesses such as retail banking in Asia that offer growth potential for the next 10 years and creating a new competitive edge.
- Third, we will seek growth in bottom-line earnings and improvement in efficiency in the three areas of capital, assets, and cost, by managing credit risk, expenses, and liquidity in a disciplined and integrated manner.
- By implementing these measures, the International Business Unit is targeting ROE of 9% and net business profit of ¥415 billion in FY3/2020.

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- The Global Portfolio Strategy (GPS) Department was established in the International Banking Unit of SMBC in April 2016. It plays a central role in formulating a risk appetite framework (RAF) and managing the overseas credit portfolio in an appropriate and

profitable way in line with the framework while harnessing the strengths of the international business. SMFG aims to build a balanced portfolio that includes corporate loans as well as assets that we have strengths in. Consequently, we have maintained an overseas loan spread of around 1.2% while controlling credit risk despite tough competition.

- During the current medium-term management plan period, we expect to raise the percentage of the sum of asset finance, project finance, and trade finance to 45% of the total credit portfolio, while controlling our credit costs with a discipline and nimble portfolio management.

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- We have a track record of proactive credit control, which we are maintaining in the current medium-term management plan.
- In resource-related sectors, the GPS Department has taken the initiative in disposing of loans considered to be non-performing assets, resulting in a sharp reduction of net credit costs in FY3/2017. In FY3/2018, SMFG established a Special Credit Group for the shipping sector to further control credit costs.

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- In terms of personnel deployment and investment, we invested aggressively mainly in Asia during the previous medium-term management plan (“Asia-centric First Stage”). For the current medium-term management plan, we will allocate the required resources to selected businesses with a clear set of priorities.
- Additional expense reduction measures include relocating the New York middle and back office functions to a suburban location, cost cutting by changing PC operating system licenses in Europe and the Americas when renewing contracts and sharing overseas group offices.

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- In the past three years, SMFG has worked on increasing customer deposits as way of sourcing foreign currency funding. In Asia, which has recorded the strongest growth in deposits, SMFG established the Treasury Department, Asia Pacific Division two years ago to ensure the funding team works closely with their corporate relationship officers for deposit-taking promotion. These measures led to a far higher growth rate of foreign currency deposits versus foreign currency loans, therefore narrowing the loan-deposit gap.

- Based on our liquidity RAF, we will continue to build a stable source of foreign currency funding while managing our portfolio in a flexible and proactive way through the O&D business.

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- One of SMFG's seven strategic business areas calls for increasing our market share in Corporate & Investment Banking in key global markets. This requires selecting targets in the context of regional characteristics and focusing on these targets. For example, for large corporates in Europe and the Americas, we will narrow down our targets to companies with cross-selling potentials based on bank-securities integration and sales & trading (S&T) capabilities. We will focus on improving overhead ratios and bottom-line earnings by selectively allocating resources to these targets.
- In Asia, we are deepening business relationships with prime Asian corporations and growing companies in the region. We set up a marketing department specifically dealing with multinational corporations in April, aiming to deepen global business relationships by strengthening business in Asia with US and European multinational corporations operating in the region.

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- The main business of SMBC Nikko's overseas operation has been engaging in bond underwriting in Europe and the Americas leveraging SMBC's banking relationships with their corporate clients. Going forward, SMBC Nikko will aim to expand their global bond platform and execution capability by enhancing their marketing capability towards institutional investors in Asia.
- They are also adding an advisory function by running a sector-based business. As well, we aim to improve profitability by improving our status in the securities business and strengthening S&T earnings by linking the primary and secondary businesses more organically.

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- Businesses in which SMFG boasts of its market shares such as aircraft leasing, railcar leasing in North America, subscription finance, and LBO finance are recording solid growth as a core earnings base of the International Business Unit.
- Using these marketable assets, SMFG will continue to promote the O&D business model by making full use of the group platform (including SMBC Nikko) to achieve further improvement in capital and asset efficiency.

(ii) Presentation from Jerry Ng

(BTPN presentation) P1

- The GDP of Indonesia is approximately USD 1 trillion, and has been growing at 5% per year. The population is 260 million, with a young demographic composition. Therefore, it is expected that the market will expand as the population of the consuming class, which covers 30% of the overall population, increases. We believe there is a great business chance in Indonesia, knowing that only 36% of the adults have a bank account and that digitalization is occurring rapidly.
- Speaking of the profitability of the banking sector, the RoA is 2.3%, whereas to BTPN, it is over 3%.
- SMFG, with BTPN's business combined, is believed to be the only foreign bank in Indonesia which covers a wide range of both customer segmentation and business field. We strongly believe that SMFG is in a good position to develop even further, by cooperating with BTPN.

(BTPN presentation) P2

- BTPN has focused on enhancing two strategies for the past three years.
- The first is establishing a digital banking platform. In August 2016, we released a mobile banking platform for smartphones, "Jenius" to digitally savvy mass-affluent individuals. This is probably the first in Indonesia and Asian developing countries. We have accumulated 280 thousand registered customers up to now. We also started serving the mass-market with another mobile banking service, "BTPN Wow!" in September 2015. We have accumulated customers of 3.6 million, and there are also 183 thousand agents that users could deposit and withdraw their money. This is equivalent to holding the same number of ATMs in Indonesia. By building these platforms, we have succeeded in taking in customers who have not owned bank accounts.
- The second is digitalizing our core businesses. This is the same trend as SMFG's strategies. We are leveraging the usability of customers by digitalizing our services, and we are also working on enhancing the efficiency by digitalizing our end-to-end process and reducing the number of branches.

(BTPN presentation) P3

- By promoting the two strategies I just mentioned, BTPN is seen as the only bank in Indonesia that utilize innovative and cutting-edge digital technology.
- We would like to promote digitalization and automation even more by developing new businesses with an agile approach and taking in new expertise and platforms.

(BTPN presentation) P4

- If you look outside Indonesia, there are many markets with high potential in Asia. We believe that we will be able to deploy our unique technology and business developed in cooperation with SMFG to other markets when the right time comes.

(2) Major questions and answers

Q1. Please explain whether there is any chance you take the strategy to take risks of expanding overseas assets in light of the current decrease in yen swap costs leading to reduction of foreign currency funding costs.

A1. (Kawasaki) Although yen swap costs are recently declining, we believe that the current level will not be sustainable because shift of costs would be affected not only by the Japanese mega banks that provide overseas loans but also by domestic institutional investors who invest in overseas assets. In addition, it is expected that it would be required to accumulate liquidity buffers at our overseas offices due to the tightening of international financial regulations. Considering these circumstances, we would like to focus on enhancing asset quality through cross-selling rather than seeking asset growth.

Q2. Please explain the key factors for strengthening origination and distribution (O&D).

A2. (Kawasaki) While we pursue the collaboration between SMBC and SMBC Nikko in the overseas markets, we believe that we should strengthen both origination and distribution. When it comes to distributing our assets to investors, we cannot sell them only because of the loan spreads being high. It is indispensable to strengthen both origination and distribution by distributing various asset-classes of products to meet investors' needs, for instance, even if a product does not meet demand of a specific investor, we will try to find a different investor that would be interested.

Q3. Please explain how to cope with regional/industrial credit risk control on a global basis and how to take risks in Europe and the US if risks related to developing countries are surging.

A3. (Kawasaki) From the industrial perspective, we are closely monitoring the natural resources and shipping sectors. For the shipping sector, we established the Special

Credit Group to control risks by analyzing and checking the borrower one by one. As for risks related to the developing countries, we operate carefully assuming that there are some effects from rate hikes and tapering by the US Federal Reserve. If a global financial crisis equal to that of 2007-2008 happened again, we would scale down our operations in Europe and the US, because the financial market would be severely affected on a global basis and market liquidity would disappear. On the other hand, we currently expect that effects coming from the rate hikes in the US would be limited. Hence, if credit uncertainty rises in Asia and we need to temporarily slow down our growth in the region, we would be able to shift our resources to the US market where US dollar flow would return allowing us to offset our profit decline in the Asian market and even seek business opportunities in the US. When it comes to making these decisions, we believe that it is important to manage our asset portfolio in a flexible manner by prioritizing risk/return, in other words, flexibility and balance are important.

Q4. Please explain how BTPN has been changed since starting the strategic partnership with SMFG/SMBC.

A4. (Jerry Ng) Firstly, BTPN is now able to utilize various resources of SMFG and SMBC. For instance, we jointly worked on launching the two mobile banking services in Indonesia, “BTPN Wow!” and “Jenius”. Secondly, BTPN is now able to access new segments of customers such as Japanese/Non-Japanese large corporations of SMBC’s customers and middle-class clients of OTO by collaborating with the SMFG group companies. We believe there continues to be large opportunities to pursue synergies going forward.

In addition, thanks to the investment by SMBC, BTPN is now regarded as to be a member of a global bank or a Japanese mega-bank, and the credit rating of BTPN in Indonesia by Fitch Ratings was upgraded three notches from AA- to AAA. As a result, we feel positive effects in terms of wholesale funding and perceptions from our customers.

Q5. Please explain the progress of digital banking in Indonesia and the possibility of changes in SMFG/SMBC’s ownerships.

A5. (Jerry Ng) Following China and India, digitalization is currently spreading in our daily lives in Indonesia, thus it is inevitable for financial institutions as being the

core of the society to cope with these changes. In light of these movements, BTPN decided two and a half years ago to build two services, “BTPN Wow!” and “Jenius” by collaborating with SMFG. By launching these services early, we believe BTPN has first-mover advantages. In the future, we believe it will be possible for us to expand our expertise and experiences gained in Indonesia to other Asian countries such as Cambodia and Myanmar.

(Kawasaki) As for FinTech, what is important is how to establish business models by using technology. SMFG/SMBC developed digital banking services in Indonesia together with BTPN, and we adopted some tips of those into our retail internet banking platform and services in Japan. However, the business model of BTPN is not fully applicable in Japan, because the profitability and business model of FinTech are different between high-interest rate countries and low-interest rate mature countries. For instance, the loan-to-deposit spread of BTPN is 12% and funding cost in Indonesia is generally 8-9%, thus one of the business models in Indonesia would be to reduce funding cost by using FinTech. On the other hand, Japanese market conditions are different with the extremely low interest rates. Thus, there are both applicable and inapplicable aspects.

As for our investment in BTPN, we have established a relationship with President Jerry and the management team in which we can discuss a wide variety of strategic alliances. According to the regulation in Indonesia, although the first capital injection is limited up to 40% of ownership, it is possible to raise the stakes subject to government approval if a certain period of time has passed and certain conditions are met. Therefore we are currently discussing various options with the BTPN management team. Although increasing our ownership is one of the options, currently no decision has been made.

4. Global Markets Business Unit

Managing Executive Officer, Hiroshi Munemasa

(1) Presentation summary

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- The Global Markets Business Unit consists of two sections. The Treasury Unit of SMBC and the Product Unit of SMBC Nikko. It is a small team with only 1,400 employees as a total.
- The business unit has three main missions. First is Asset Liability Management (ALM) /

Portfolio management, which is an “offensive” mission to raise profit by taking risks against the market. The second is foreign currency funding, which is relatively a “defensive” mission. The third is one of the core business areas mentioned in the mid-term management plan, Sales & Trading (S&T), which is a mission to “connect” our customers to the market.

- The FY3/2020 plan for gross profit is ¥380 billion, which is a ¥32 billion increase in comparison to FY3/2017. We will be achieving this basically by increasing the S&T profit of SMBC Nikko. We will strengthen S&T in SMBC as well, but according to our managerial accounting rules, the margin and commission we earn from deals such as foreign exchange transactions and derivatives are counted in other business units. Therefore, the financial target for SMFG’s S&T profit will be set as a KPI of the business unit. We aim to increase the S&T profit by ¥32 billion at SMBC Nikko and by ¥33 billion at SMBC in the next three years. If you look at the ROE of the Global Markets Business Unit, it is a very large figure, but this is because the interest rate risk associated to the banking account is not factored in within the equity. Therefore, we would like you to trace not the highs and lows of the figure, but the trend of improvement.

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- In this mid-term management plan, we set forth Discipline, Focus and Integration as SMFG’s core policies. In this slide, we presented the ultimate goals of the Global Markets Business Unit, by adding some details from our point of view.

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- The characteristics of our business unit’s portfolio management are that we flexibly and boldly rebalance our portfolio depending on the environmental changes, and that we aim for return by focusing on products that are attractive from an investment point of view. We will continue to leverage the capability of gaining profits by taking market risk, in other words the “trading” capability, as SMFG’s strength, and we will pass it on to the next generation as our DNA.
- Now, laying steady fundamentals and outperformance of stocks as our main scenario, we continue to manage our portfolio by putting investments to Japanese equities as a core. However, this year we started inserting long exposures of US bonds to prepare for risks caused from the uncertainty of western politics and geographical incidents.
- It is difficult to forecast the future market environment, but we will continue, as usual, to catch the turning point of the trend.

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- We have been working on enhancing the “trading” capability so that we could steadily gain profit in any market environment, but at the same time we have also learned the difficulty to continue winning. There are market environments such as negative interest rates that are difficult to conquer no matter how much trading skills you have. In that sense, we cannot overcome the uncertainty of portfolio management.
- With this in mind, we decided to construct a new revenue source in addition to portfolio management, and this led to introducing S&T as one of our core business areas.
- The market-risk-driven portfolio management business is still our core business. Our objective is to establish the customer-transaction-driven and recurring S&T operations as another core of our business. As long as there are customer demands to hedge market risks or to invest in the changing market environment, we will be able to continue providing services, and we think this would lead to increasing our earnings strengths and stabilize our business.

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- In this slide, we will explain our thoughts on what will be needed to make S&T operations a truly recurring model. The answer is simple. Earnings from S&T could be broken down into the volume of transactions and the profitability per transaction. Therefore what we need to do is to increase the volume of transactions and raise the profitability per transaction.
- Let us explain the diagram on the left side. Customer reach is the coverage of customers and the penetration of management issues. Product is an assortment that could meet customers’ demands and the capability to provide financial solutions. We will increase the volume of transactions with customers by enhancing these two strengths; while on the other hand, we will enhance our “trading” capability to raise the profitability per transaction. To establish a recurring model, we will reinforce these three equally.
- The most important point is how much repeat customers we could create. Because there are so much market information and written proposals in the market, from the customers’ perspective, SMFG will only be regarded as one of the many financial institutions. However, we will try to break through by sharing with our clients the experience and knowledge SMFG acquired as being a major market player, such as the know-how of how to grasp the position in the market, or how to control market risk.

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- In this slide, we show the current status of transactions in the bank (domestic), securities (domestic), and overseas, and we will also show the key initiatives to strengthen each business.
- We think the bank (domestic) has strength in “trading” capability. We developed a system to widen customer reach by enhancing efficiency through the integration of the sales force which was broken up across business units. In addition to that, we are also making effort to enhance the ability to make proposals by visualizing market risks being experienced by companies. The challenge is increasing the volume of transactions.
- As to the securities (domestic), SMBC Nikko holds a strong customer base in fields such as domestic retail business, and financial institutions, and maintains a relatively big volume of transactions as one of the three major securities companies in Japan. The key point is to improve the profitability of each transaction flow, and we will promote self-manufacturing of derivatives and focus on equity facilitation.
- As to the overseas business (bank-securities), we have just started focusing on it. We have a lot to work on, but we could also say that there is so much potential in this area.

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- From the “Integration” point of view, we showed here how to establish the operation base, but to say it simple; it is just to promote the integration of common functions on a Group basis.
- As to employees who could deal with quants, we used to hold them in each group company, but we integrated them to form a common function to develop new models. We are storing the models developed in a “library” so that we could pull them out and freely customize them. This is a good example that this will lead not only to leveraging cost synergy, but to speeding up and sophisticating the transactions, in other words, increasing the topline.

(2) Major questions and answers

Q1. Please explain how much will you invest in cutting-edge technology in order to strengthen the S&T business.

A1. We understand that S&T is a business area where digital technologies are already prevalent. However, we will first aim to prioritize in fully utilizing our customer base and building our overseas platforms. Then, we will invest in cutting-edge technologies based on our priority with sustained discipline.

Q2. Please explain how confident you are to achieve the profit-growth target of the medium-term management plan.

A2. We believe the market conditions during this management plan will be challenging including the difficulty to earn profit from the yen interest-rate portfolio. However, we think that our target for this management plan is not unreachable.

Although the current market condition with low volatility is unfavorable for the S&T business, the current transaction volume is higher compared to the previous year. We have not yet utilized 100% of our customer base as SMFG, thus we believe we can reach the target by seeking to fully reach our untapped customers.

Q3. Please explain why the risks related to strategic shareholdings are not allocated to the Global Markets Business Unit.

A3. Our policy is not in line with the idea that the Global Markets Business Unit should take risks associated with strategic shareholdings. Based on our prospects towards the market, SFMG's Global Markets Business Unit manages liquid assets such as stocks, interest rate, and foreign exchanges by changing our portfolio flexibly. Thus, our characteristic and strengths are that we work under a relatively flexible and agile operation. On the other hand, the turnover ratio of strategic shareholding is not so high so we believe it is unsuitable for us to manage them.

END