

Major questions and answers at SMBC Group IR Day 2019

1. Naoki Tamura

Senior Managing Executive Officer

Retail Business Unit

Q1. What is the payment business strategy going forward anticipating the Japanese government's "Point Reward Project for Consumers using Cashless Payment"?

A1. In Japan, while credit card payments are popular among medium-sized and large merchants, there are many small-sized merchants that only accept cash payments. Therefore, we believe that the government's "Point Reward Project for Consumers using Cashless Payment", which will begin in October 2019, can become a major catalyst to promote cashless payments in the country.

We are trying to tap the small-middle business market through collaboration with Square, a U.S. company that provides the "Square reader" which enable merchants to accept credit card payments by simply connecting the device to smartphones or tablets. From FY3/20, all branches at SMBC started marketing Square's products and services. There is a significant potential here because there are 0.7 million small-middle merchants that are SMBC's customers, and another 2 million small-middle merchants around our branches who are not our customers. By tapping this market, we aim to expand the cashless payment market in Japan and increase our market share as well.

Q2. You have been explaining that you will maintain the number of branches. However, is the intention of increasing SMBC joint branches to reduce the practical number of branches?

A2. Through retail branch reorganization, we are both establishing joint branches (which combine existing branches leading to the reduction of the number of branches) and opening new branches, considering changes in the branch's surrounding environment and customer needs. In principle, we intend to maintain the number of branches as a place to consult our customers. In FY3/18 and FY3/19, we transformed 24 branches into SMBC joint branches mainly in urban areas. At the same time, we opened 3 new branches and 3 new representative offices at wealthy neighborhoods and areas where the population is growing. Currently, the number of establishing joint branches is outpacing the number of opening new branches, because there are cases where we cannot find suitable

properties in the targeted areas to open new branches. We have been changing the branch network by downsizing branches, establishing branches exclusive for individuals and group joint branches, which have resulted in reducing costs.

We are now discussing the future style of branches as we formulate the next Medium-Term Management Plan. We intend to create a more distinctive branch network, one that focuses on consulting, while promoting digitization and cashless operations.

Q3. What are your thoughts on the OHR being higher and the ROE being lower compared with other business units?

A3. The OHR and ROE of the business unit will differ depending on how revenues and costs are allocated based on management accounting. Therefore, we focus on whether the performance of the business unit has improved over time rather than comparing the absolute level.

We think that the major factor behind the higher OHR and lower ROE of the retail business unit is the current low-interest rate environment.

2. Kimio Matsuura
Senior Managing Executive Officer
Wholesale Business Unit

Q1. How do you plan to cease the decline in loan spread?

A1. As for loans to small and mid-sized corporations, the gap between the loan spread of new loans and the loan spread on a stock basis has narrowed. In addition, the decline of the outstanding of prime-rate-based loans, which have high interest margins, has stopped. Also, we have enhanced our initiatives to raise loan spread for new loans. First is providing high value-added loans related to customer events such as M&A, LBO, and business succession. We can secure a higher loan spread for these transactions by sourcing projects from the initial stage leveraging our intelligence and network. Second is adding loan spread to the evaluation system of each marketing office. As for large corporations, we have significantly expanded the number of clients that apply profitability management for each client. As for mid-sized corporations and SMEs, we have worked on improving profitability for low profitable clients. We are seeing some progress. Although it is a difficult issue, we aim to cease the decline of loan spread in FY3/20 by providing high value-added loans and instill the mind-set of improving profitability into marketing offices.

Q2. What are your thoughts on the risks of transaction revenue (i.e. FX, money transfer fee, etc.) slowing down due to the entry of new players and technological innovation?

A2. Backgrounds of the growth in asset-light income include an increase in FX fee due to the increase in trading volume and our market share as well as an increase in settlements through bank accounts due to the expansion of e-commerce. We believe that needs for trading transactions and settlements using bank accounts will remain even if new entrants from other industries increase. We will endeavor to increase our market share by correctly addressing customer needs.

Some believe that FX and trading settlements that do not go through bank accounts but use blockchain technology will increase. We are also working to develop a new settlement service that use blockchain. In addition, we are promoting cashless payments on a group-wide basis and encouraging participation in the platform provided by us and our collaborative partners. Through these initiatives, we aim to maintain the growth in asset-light income.

Q3. With regards to the reduction of strategic stockholdings, what is the current status of negotiations? Also, what plans do you have after achieving the current reduction target?

A3. First priority is to achieve the current reduction target. Our client's stance is changing in response to the introduction of the Corporate Governance Code. We are negotiating with our clients carefully by gaining consent of sales through dialogue in light of the history of the holdings. At the same time, we continue to negotiate to improve profitability, and propose variety of sales methods from SMBC Nikko in light of customer needs on a client-to-client basis.

After the achievement of the current target, we will look to reduce further toward a level that is appropriate for a G-SIFI in the mid- to long-term. We will consider the next detailed target after achieving the current target.

3. Masahiko Oshima
Deputy President and Executive Officer
International Business Unit

Q1. What are your thoughts on rebalancing the foreign asset portfolio? Will you reduce loans to Japanese corporates whose loan spread is low?

A1. We focus on profitability in portfolio management. We have an edge over competitors in loan spread, but downward pressure is continuing. Although enhancing high profit assets where we hold strengths is one of the important measures to improve profitability, we do not intend to excessively rely on this. Given the overall stability and balance, we believe that it is also important to expand business transactions with corporate clients, including ancillary businesses. Loans to Japanese corporates are often highly profitable on a total basis even though the loan spread may be low. This is because we can acquire sticky deposits through the use of settlement accounts as well as FX, money transfer and derivative transactions on a SMBC group basis. The concept of securing total profitability is basically the same for non-Japanese corporates as we promote cross-selling including bond underwriting and derivatives. Therefore, when considering asset rebalancing, it is important to look at the total profitability rather than profitability of individual transactions. On the other hand, as it is true that we do not secure high total profitability for all of our clients, we will endeavor to improve profitability of low profitable clients, and if there are no signs of improvement, we will carefully but certainly reallocate such assets.

Q2. What is the impact on your business if U.S. interest rates decline?

A2. There are various impacts. However, generally speaking, it is difficult to raise the loan spread when interest rates decline. We have experienced the same situation in Japan and Europe. On the other hand, a decline in interest rates is positive for us in that it will be a tailwind for the U.S. economy. In addition, the decline in the profitability of deposits for U.S. banks will be a little positive for us. In total, we do not expect a significant negative impact on us from the first or second rate cuts. As there is still room to increase profits in the U.S. where growth potential is high, we will continue to take on these challenges.

Q3. How do you intend to grow earnings from the international business while there is the risk of downgrading of credit ratings?

A3. To achieve sustainable growth, we believe that it is not a good idea to grow our international business in the same manner as in the past. Therefore, we are trying to shift to a growth model that does not excessively rely on B/S expansion. This is not easy, but the potential of Japanese banks including ourselves to grow in the major overseas markets has increased significantly over the past few years. I feel that there are more opportunities for Japanese banks to grow now than any time in the past 30 years since I joined SMBC. We believe that the task going forward is to create a framework to improve capital and asset efficiencies as well as to realize sustainable growth in the overseas market.

4. Hiroshi Munemasa
Senior Managing Executive Officer
Global Markets Business Unit

Q1. What is the outlook for the Bank of Japan's monetary policy, particularly the possibility of additional monetary easing?

A1. I believe there is the possibility the BOJ implements additional monetary easing. This will be done in two stages. The first stage occurs when the risk of deflation emerges. First, if the Fed lowers interest rates and spills over to the foreign exchange markets, it could result in an appreciation of yen. Then, inflation expectation in Japan falls and the possibility of deflation increases. Under such scenario, the BOJ should seriously consider additional monetary easing, even if side effects are anticipated. As for the methods of monetary easing, although there are possibilities of deepening negative interest rates and lowering long-term interest rate targets, I basically think that the main scenario will be to strengthen quantitative easing such as through buying more ETFs. The second stage occurs when the deflationary risk becomes more serious, so-called a credit crunch from a deep recession. The BOJ may consider credit easing as the Fed took after the Lehman crisis. However, for now, I do not expect the Japanese economy will fall into the second stage.

5. Katsunori Tanizaki

Group CDIO

Q1. Are there any examples that resulted in organizational restructuring by promoting digitalization?

A1. One example is retail branch reorganization. In the conventional branches, there is a counter and many people are engaged in a variety of back-office operational work behind the counter. However, this has dramatically changed with retail branch reorganization. In smart branches, back-office operational works are centralized to operational centers through the use of digital technology, while customer space for consulting services are expanded. In addition, the operational centers are promoting further operational efficiency improvements, such as the utilization of RPAs for centralized operations.

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