

# SMBC Group IR Day

June 20, 2019



SUMITOMO MITSUI  
FINANCIAL GROUP

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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.

## Definitions

SMFG	Sumitomo Mitsui Financial Group, Inc.
SMBC	Sumitomo Mitsui Banking Corporation
SMBC Trust	SMBC Trust Bank
SMFL	Sumitomo Mitsui Finance and Leasing
SMBC Nikko	SMBC Nikko Securities
SMCC	Sumitomo Mitsui Card Company
SMBCCF	SMBC Consumer Finance
SMAM	Sumitomo Mitsui Asset Management
SMBC AC	SMBC Aviation Capital
Consolidated	SMFG consolidated
Non-consolidated	SMBC non-consolidated
Expenses (non-consolidated)	Excludes non-recurring losses
Net business profit	Before provision for general reserve for possible loan losses

Retail Business Unit	Domestic retail and SME businesses SMBC, SMBC Trust, SMBC Nikko, SMCC, SMBCCF
Wholesale Business Unit	Domestic large/mid-size corporation business SMBC, SMBC Trust, SMFL, SMBC Nikko
International Business Unit	International business SMBC, SMBC Trust, SMFL, SMBC Nikko
Global Markets Business Unit	Market / Treasury related businesses SMBC, SMBC Nikko
Large corporations	Global Corporate Banking Division
Mid-sized corporations & SMEs	Corporate Banking Division and SMEs covered by Retail Banking Unit

Exchange rates (TTM)	Mar. 18	Mar. 19
USD	JPY 106.25	JPY 111.00
EUR	JPY 130.73	JPY 124.55



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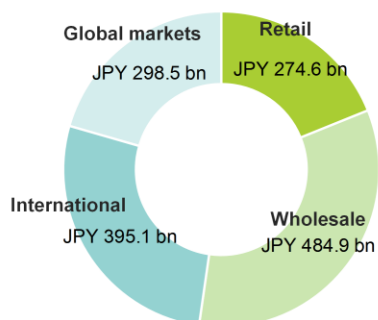
## Agenda

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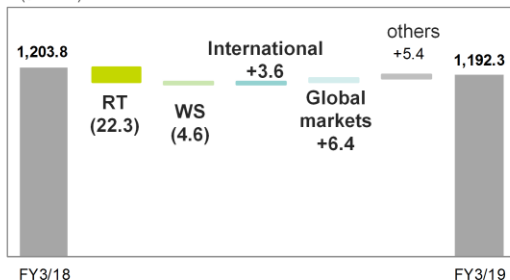
13:30 ~ 13:35	Opening	Group CEO	Jun Ohta
13:35 ~ 14:15	Retail	Senior Managing Executive Officer	Naoki Tamura
14:15 ~ 14:55	Wholesale	Senior Managing Executive Officer	Kimio Matsuura
14:55 ~ 15:05	Break		
15:05 ~ 15:45	International	Deputy President and Executive Officer	Masahiko Oshima
15:45 ~ 16:15	Global Markets	Senior Managing Executive Officer	Hiroshi Munemasa
16:15 ~ 16:55	Digital Innovation	Group CDIO	Katsunori Tanizaki

## Results by business unit

### Consolidated net business profit<sup>\*1</sup>



(JPY bn)



### ROE<sup>\*2</sup>

	FY3/18	FY3/19	FY3/20 target <sup>*3</sup>
Retail	7.5%	7.3%	7%
Wholesale	11.4%	12.1%	10%
International	10.6%	9.3%	9%
Global markets	33.5%	31.8%	39%



<sup>\*1</sup> YoY figures are after adjustments for interest rate and exchange rate impacts <sup>\*2</sup> Excludes impact from the provision for losses on interest repayments and the cost from branch reorganization (Retail), the medium- to long-term foreign currency funding costs (International) and the interest-rate risk associated to the banking account (Global Markets)  
<sup>\*3</sup> Target for the Medium-Term Management Plan

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# Retail Business Unit

Naoki Tamura, Senior Managing Executive Officer



## Progress of Medium-Term Management Plan / Strategy

### Progress

<b>Wealth management</b>	<ul style="list-style-type: none"> <li>Steady increase in fee-based AUM</li> <li>Established customer-oriented wealth management business which focuses on mid- to long-term diversified investments</li> </ul>
<b>Payment business</b>	<ul style="list-style-type: none"> <li>Integrated management of SMCC and Cedyna</li> <li>Initiated cashless payment strategy</li> </ul>
<b>Retail branch reorganization</b>	<ul style="list-style-type: none"> <li>Completed transformation of 259 branches to smart branches (60% progress)</li> <li>Steady progress in cost reduction</li> </ul>

### Strategy to improve ROE

- Establish customer-oriented business model
- Accelerate digitalization

### Financial results

(JPY bn)	FY3/19	YoY <sup>*1</sup>
Gross profit	1,281.6	(25.7)
Expenses	1,021.4	(4.5)
Overhead ratio	79.7%	+1.2%
Net business profit	274.6	(22.3)
ROE	7.3%	+0.1%
RWA (JPY tn)	12.8	(0.1)

### KPI

	FY3/19	YoY
Balance of fee-based AUM <sup>*2</sup>	JPY 12.7 tn	+JPY 0.8 tn
Credit card sales handled	JPY 17.9 tn	+JPY 1.8 tn
Utilization rate for digital channels	31.2%	+8.4%
Balance of card loans (group-wide basis)	JPY 1.8 tn	+JPY 0.0 tn
Cost reduction from retail branch reorganization	JPY 11.8 bn	+JPY 8.8 bn



<sup>\*1</sup> After adjustments of the changes of interest rates and exchange rates <sup>\*2</sup> SMBC+SMBC Nikko

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In FY3/19, net business profit decreased year-on-year, mainly as a result of the downturn in the wealth management business due to the deterioration of market conditions in the second half.

On the other hand, as shown in the bottom right, all KPIs including the balance of fee-based AUM improved year-on-year. We have steadily improved our capability to secure sustainable profits.

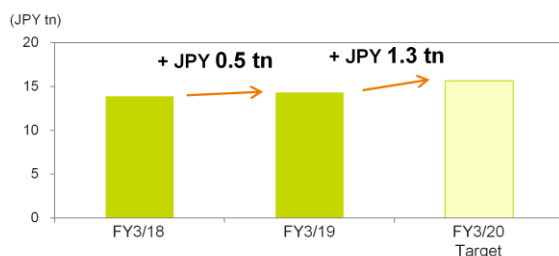
Our strategy going forward is to establish a customer-oriented business model and to accelerate digitalization, as outlined in the bottom left.

I will now go into more detail by each business line.

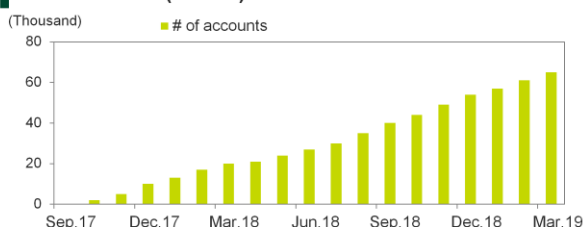
## ■ Wealth management business

- Change the profit structure by shifting to a fee-based AUM business model.

### ■ Balance of fee-based AUM<sup>\*1</sup>



### ■ Funded NISA (SMBC)



\*1 Sum of SMBC + SMBC Nikko + SMBC Trust \*2 Performance evaluation of the wealth management business in retail business

### ■ Customer-oriented performance evaluation<sup>\*2</sup>

History	
FY3/16	• Define the same performance evaluation for each investment trust regardless of products
FY3/17	• Added the balance of stock-based AUM to performance measures
FY3/18	• Lowered the evaluation weight of revenue
FY3/19	• Reflected customer feedback in the performance evaluation, such as NPS surveys • Further lowered the evaluation weight of revenue
FY3/20	• Shifted to a performance evaluation system that emphasizes "customer-oriented and compliance" • Eliminated revenue performance evaluation • Eliminated individual targets for financial products sales

### ■ External evaluation on customer-oriented business

High external ratings	<b>Rank #1</b>	Retail Banking Customer Satisfaction Survey by J.D. Power (Japanese bank sector) [SMBC]
	<b>Rating S</b>	Customer-Oriented Investment Trust Sales Company Evaluation by R&I [SMBC group]
	<b>Rank #1</b>	CS Monitor Survey by KINZAI [SMBC]

Regarding the wealth management business, we are continuing to promote a customer-oriented approach, shifting to a fee-based AUM business model. From the customer's perspective, we are promoting mid- to long-term diversified investment products in response to customers' needs to steadily increase their assets.

On the other hand, from our perspective, this leads to stabilizing our earnings.

As shown on the left, the balance of fee-based AUM increased by ¥0.5 trillion year-on-year. Also, the number of accounts for funded NISA has increased year-by-year.

On the right hand side, we summarized how we have changed the performance evaluation system during the past few years. As you can see, we have stepped up our customer-oriented approach and as a result, we have received awards from external parties.

Some newspapers reported that SMBC's character would be lost by taking these actions. However, in reality, this is just an extension of what we have been working on for quite some time. We would like to promote this initiative so that a "customer-oriented approach" becomes SMBC's character.

We will further improve the quality of our consulting services to meet customer needs. We believe that this customer-oriented approach will lead to sustainable business expansion and earnings growth.

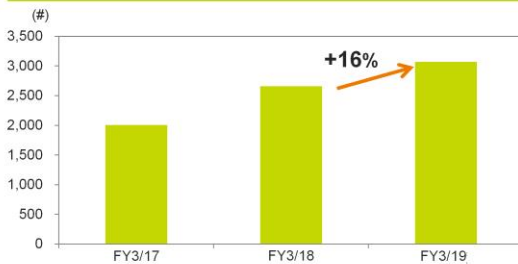
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## ■ Wealth management business

- Strengthen our capability to provide product and services for long-term investment and inheritance / succession needs from customers in anticipation of the coming “100-Year life” era.

### ■ Inheritance / succession

# of testamentary trust + inheritance disposition



Potential high-net-worth market

- High-net-worth clients aged 60 or older with accounts at SMBC<sup>\*1</sup>

Total financial assets	o/w at SMBC	New potential for SMBC
JPY 34 tn	JPY 8 tn	JPY 26 tn



<sup>\*1</sup> Total financial assets of 100 million yen or more

### ■ Address the coming “100-Year life” era

- Introduce new products and services which meet customer needs (next page)
- Hold customer events

“100-Year life” era Forum 2018 (Dec. 2018)

- Large-scale seminar at Tokyo International Forum (approx. 1,600 people participated)



(Ref) Participants' intention to participate next time

Highly willing to participate 39%	Willing to participate 46%
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I would like to explain our approach to the Japanese elderly market which is expected to grow furthermore.

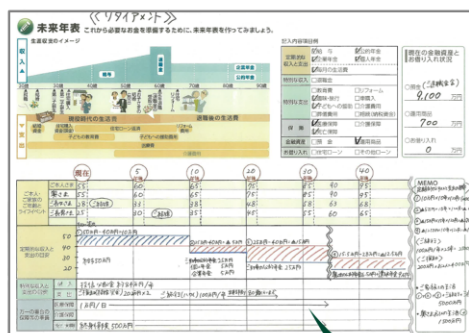
Please look at the graph on the upper left. In FY3/19, the number of testamentary trusts and inheritance disposition increased by 16% year-on-year. This is a decent level that can be compared with other major trust banks. When I was a manager of a retail branch a decade ago, many customers were reluctant to write their will. Now, however, as there is the word “Shukatsu (End-of-life plans)”, many customers are proactively looking for inheritance solutions. These needs are growing year-by-year.

The table summarizes the market size of financial assets for high-net-worth clients. The total financial assets of them aged 60 or older who has a account at SMBC is ¥34 trillion, of which ¥8 trillion is actually held at SMBC. It means that there is potential for further business opportunities for us.

The testamentary trust will lead customers to consolidate their assets with SMBC group by entrusting their trusts. There is a strong need for information regarding the aging society. Last December, approximately 1,600 people participated in our “100-Year life” era Forum. It was very well received. We aim to capture the elderly high-net-worth market by providing consulting services tailored to each customer needs.

## (Ref) Consulting simulation

- Estimate the lifetime fund balance including salaries, retirement benefits, pension and expenses based on statistics.
- Visualize issues and necessary measures to be taken by customers (e.g. asset building, investment and inheritance).



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I would like to show you an example of our consulting tools.

We provide consulting service by forecasting future income and expenditures for each customer based on customer data and statistical data.

In the past, sales staff used to calculate these figures and write them on a piece of paper. Now, by using a simulation tool on a tablet, we can visualize future income and expenditures and provide consulting service more easily.

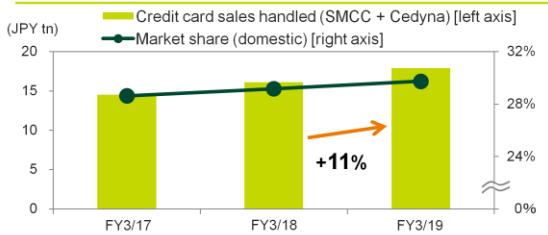
In addition, we are accumulating customer information in our database so that we can offer proposals to meet customers' new needs including non-financial needs.

## Payment / Consumer finance business

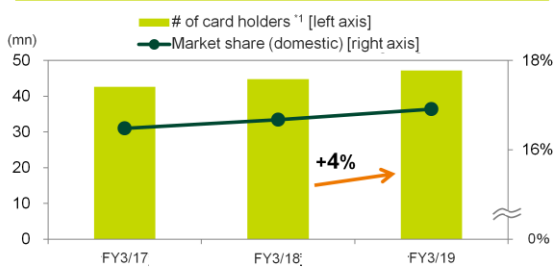
### Payment business

- Aim to expand market share through the cashless payment strategy.

#### Credit card sales handled



#### # of card holders



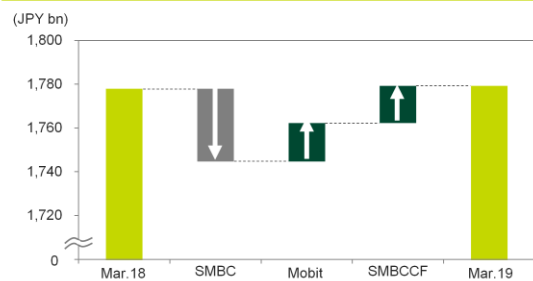
\*1 Credit card (SMCC + Cedyna) + SMBC Debit

### Consumer finance business

- Provide products and services which meet customers' needs.
- Strengthen screening model and marketing.

- Group-wide initiatives to increase bottom-line profit
  - Enhance SMBC card loan service
  - Increase loan volume and reduce credit costs by upgrading credit screening models utilizing group-owned data and AI
- Improve productivity by reviewing operational processes and utilizing group resources
  - Review operational processes of SMBC card loan
  - Rationalized call centers in SMBC, SMBC Mobit and SMBCCF

#### Card loan balance



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Next is the payment business.

In FY3/19, we increased our market share for both credit card sales handled and the number of card holders. We succeeded to capture the growth of our customer's cashless needs.

In FY3/20, we will aim to further increase our market share through the cashless payment strategy such as the establishment of the next-generation payment platform, which was explained by the Group CEO at the investors meeting this May.

The right hand side shows the consumer finance business. Changes in the balance of card loans by entity are shown on the bottom right. Despite the severe market conditions for bank loans, Mobit and Promise steadily increased their card loan balance. As a result, total card loan balance remained at the same level as the previous fiscal year.

In FY3/20, we will aim to expand the bottom-line profit after credit costs by enhancing the SMBC card loan product and upgrading our credit screening models utilizing AI analyses leveraging our group-owned data.

## Digitalization

- Focus on enhancing our mobile banking app's UI/UX.
- The number of SMBC direct users increased at a faster pace than in the previous year.

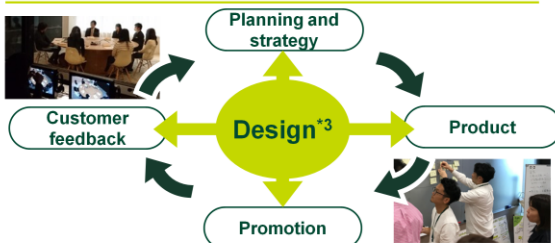
### Enhance UI/UX

#### Upgrading our mobile app



- New functions: display credit card and debit card statements, control spending, debit card issuance, and managing financial assets
- App store rating (iPhone) : 4.6 / 5.0 <sup>\*2</sup>

#### Planning and developing process of our mobile app

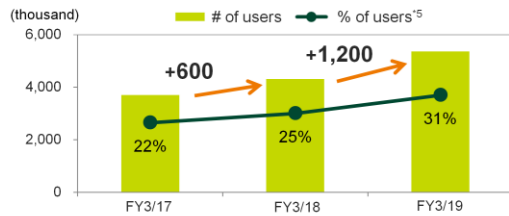


<sup>\*1</sup> User Interface / User Experience <sup>\*2</sup> As of June 6, 2019 <sup>\*3</sup> HCD (Human-centered design) initiatives by experts

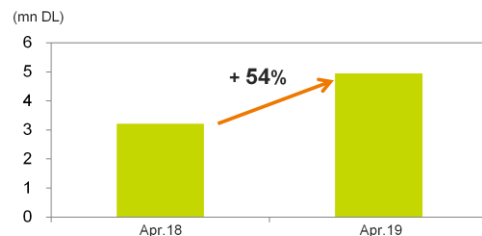
<sup>\*4</sup> # of customers logged in to SMBC Direct at least once every six months <sup>\*5</sup> Users of SMBC Direct / number of active accounts

### Increase of digital users

#### # of SMBC Direct users <sup>\*4</sup>



#### # of SMBC direct apps downloads (accumulation)



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Let's move on to digitalization.

This March, we made a major upgrade to our mobile app, which was highly received by our customers.

We believe that it is important not only to incorporate digital technology into our services but also to improve our services steadily by reflecting customer opinions and requests.

In particular, we are focusing on UI/UX. As shown on the bottom left, our designers do not only design the app interface but also are engaged in every process from planning to promotion considering customer feedback.

As a result, the number of SMBC direct users increased by 1.2 million, exceeding the growth of the previous fiscal year. The number of app downloads also increased by 54%, which means that digital users increased sharply.

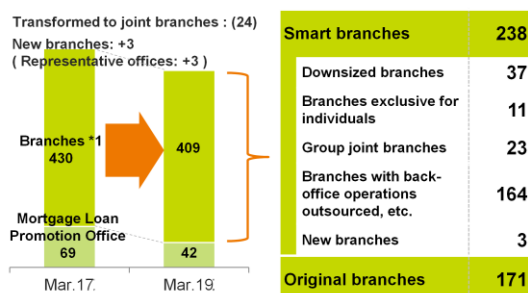
We will continue our efforts to improve UI/UX.

## Retail branch reorganization

- Transform retail branches to a “consulting space” and strengthen our capabilities to meet customer’s needs.
- Made good progress in cost reductions through branch reorganization. Continue efforts to achieve the FY3/22 reduction target.

### Transform to a “consulting space”

#### Branch network



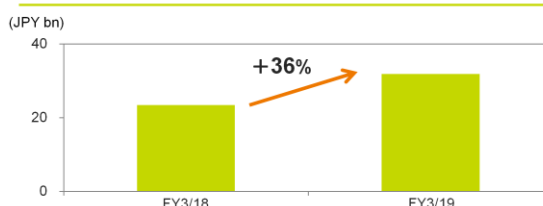
#### Expand consulting space for customers (image) <sup>\*2</sup>



\*1 Excludes public institutions offices    \*2 Case of down sized branches    \*3 Consulting and lobby space, etc.

### Strengthen consulting capabilities

#### Sales to high-net-worth individuals at retail branches (SMBC)



### Cost reduction from retail branch reorganization

	FY3/19 results	FY3/20 target
Reduction of clerical staff by improving efficiency	JPY 3 bn	JPY 6 bn
Reduction of rent fees due to smaller floor space, etc.	JPY 6 bn	JPY 8 bn
Ripple effects on operating expenses	JPY 3 bn	JPY 6 bn
<b>Total</b>	<b>JPY 12 bn</b>	<b>JPY 20 bn</b>

Finally, I would like to talk about retail branch reorganization.

Since March 2017, we have closed 24 branches by establishing joint branches. At the same time, we have opened three branches and three representative offices in Azabu Juban, Shiodome and other area where we did not have any branches.

What we are focusing on in the current Medium-Term Management Plan is not to reduce the number of branches but to reduce branch-related cost by transforming all of our branches into smart branches while maintaining the branch network as the point of contact for customers.

Although the number of branches remains unchanged, we have transformed old branches into smaller branches, established branches exclusive for individuals, and concentrated back-office operation to centralized centers. We have realized substantial cost reduction while expanding space for customers and strengthening our consulting capability.

Thanks to these efforts, sales to high-net-worth individuals at retail branches increased by 36% year-on-year. We also achieved a branch-related cost reduction of ¥12 billion in FY3/19. We expect further cost reduction in FY3/20.



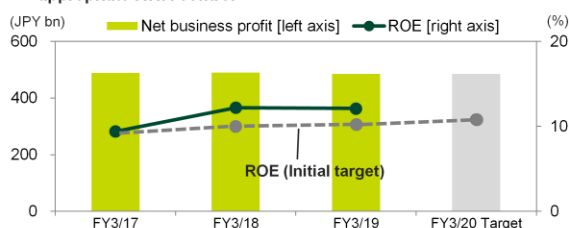
# Wholesale Business Unit

Kimio Matsuura, Senior Managing Executive Officer

## Progress of Medium-Term Management Plan / Strategy

### Progress

- Achieved to maintain net business profit and improve ROE through the expansion of business on a group-wide basis and appropriate RWA control



### Strategy to improve ROE

#### Upgrade business unit operations

- Meet our client's new management issues
  - Build B2B platform
  - Leverage group strengths

#### Appropriate portfolio control

- Sales of strategic shareholdings
- Continue asset control with greater awareness of profitability
- Identify strategic business areas

Increase net business profit

Improve ROE

### Financial results

(JPY bn)	FY3/19	YoY <sup>*1</sup>
Gross profit	784.9	+0.6
Expenses	345.1	+0.9
Overhead ratio	44.0%	+0.1%
Net business profit	484.9	(4.6)
ROE	12.1%	(0.1)%
RWA (JPY tn)	19.5	(0.4)

### KPI

	FY3/19	YoY
Market share in Japanese corporate bonds	16.8%	(0.2)%
# of IPO deals	#1	+#2
# of M&A advisory deals	#1	#1 last year as well
# of companies with core earnings	9,012 companies	(24) companies
Increase rate of non-interest income	+5.0%	-



<sup>\*1</sup> After adjustments of the changes of interest rates and exchange rate

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I will first talk about the progress of the Medium-Term Management Plan.

Although the severe business environment such as the negative interest rate policy continued in FY3/19, we were able to maintain the level of net business profit as shown on the top left and our ROE exceeded 10% which is higher than the initial target. This was the result of the expansion of group-wide businesses and appropriate RWA control.

In FY3/20, the final year of the Medium-Term Management Plan, we will aim to maintain/improve high ROE and net business profit by upgrading our business unit system as outlined on the bottom left.

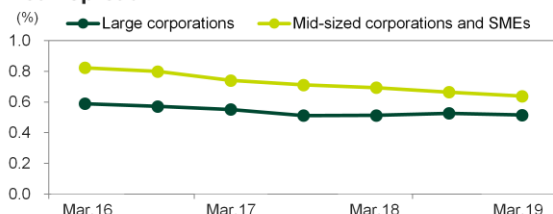
Our key financial results are shown on the upper right.

Regarding KPIs shown on the bottom right, I feel that we were able to show SMBC Group's strength such as being No.1 in the number of IPO deals and M&A advisory deals.

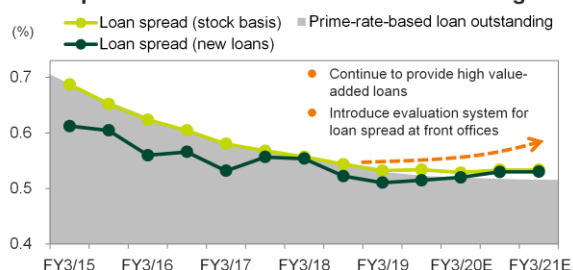
## Loan spread / Transformation of the profit structure

- Loan spread decline for large corporations bottomed out. For mid-sized and SMEs, aim to bottom out in FY3/20.
- Promote transformation of the profit structure. Aim for higher profits by ceasing decline in interest income and promoting asset-light businesses<sup>\*1</sup>.

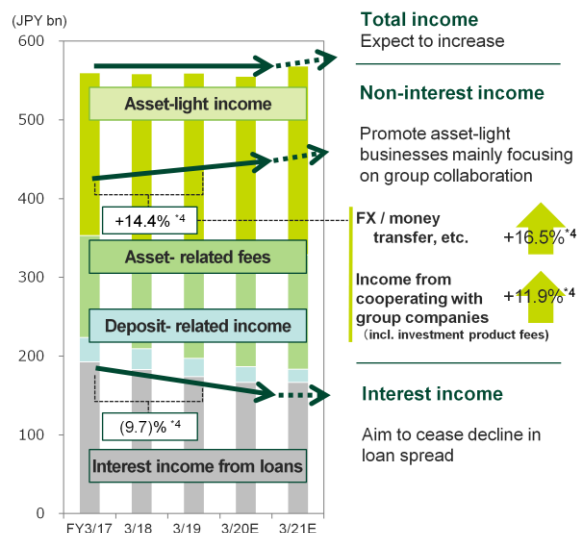
### Loan spread



### Loan spread / Prime-rate-based loan outstanding<sup>\*2</sup>



### Transformation of the profit structure<sup>\*3</sup>



<sup>\*1</sup> Businesses that do not use much assets <sup>\*2</sup> Mid-sized corporations and SMEs  
<sup>\*3</sup> Wholesale unit (SMBC) <sup>\*4</sup> % of change from FY3/17 to FY3/19

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I will now talk about the loan spread and the transformation of the profit structure.

The top left graph shows the trend of loan spread. For loans to large corporations, there are signs of bottoming out.

For loans to mid-sized corporations and SMEs, as shown on the bottom left, we expect the decline will bottom out in FY3/20 because the gap between loan spread on a stock basis and loan spread for new loans are shrinking and by providing high value-added loans.

Next, please see the transformation of profit structure on the right.

Until now, we have maintained total income by promoting asset-light businesses, shown in the middle including fee income from FX and money transfers and cooperating with group companies to offset the decline in interest income from loans shown in the bottom.

Going forward, we believe that we will be able to seek stable profit growth as shown by the dotted line by ceasing the decline in loan spread.

## Upgrade business unit operations (digitalization)

- Meet our client's management issues in response to social environmental changes by leveraging group strengths.
- Enhance customer approach and create new revenue opportunities by building a B2B platform.

### B2B platform concept



- Introduced "Biz-Create" business matching platform as the first step of our B2B platform

Feature	¥0	No charge
		Regional bank's customers
		Chat-style negotiation

Enhance convenience and expand client base

- Expand collaborative partner's B2B services

### Promote cashless payment

- Promote initiatives on a group-wide basis



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Next, I will talk about our efforts to upgrade business unit operations.

Due to the progress of digitalization and the shift from "own" to "use", customer's needs and management issues have changed dramatically. In response to these changes, we are building a B2B platform together with collaborative partners as shown on the left.

The aim of this business is to provide a variety of services from not only SMBC Group but also from collaborative partners. We will be able to enhance our customer approach by the accumulation of information and data.

We will create new revenue opportunities that differ from the traditional banking business by building an overwhelming B2B platform ahead of competitors.

As a first step, we introduced "Biz-Create" last month, which is an online-based business matching platform, as shown on the right.

We believe that the value of "Biz-Create" will come from SMBC's large customer base, and not from the novelty of the system. As described in the next slide, we will make it easier for customers to use the system by incorporating functions such as chat and needs search.

Also, we plan to make "Biz-Create" available for the regional banks' customers. We believe that the first step will be to make many customers realize the scale of SMBC's network.

As to our efforts to realize a cashless payment society as shown on the bottom right, we will aim to provide comprehensive payment solutions and merchant services to Japanese corporate clients.

Regarding comprehensive payment solutions, we will provide tailor-made services to large corporations by collaborating with GMO Payment Gateway and SMCC, which are both industry-leading companies.

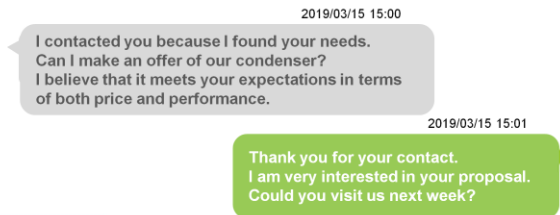
### Overview of “Biz-Create”

- Business matching services that enable customers to find business partners



### Chat function

- Accept entry of business negotiation nationwide and enable clients to negotiate directly with each other



### Examples of needs registration

- Restaurant A: Food supplier expansion needs
- Transportation B: Collaboration needs for seminar

### Needs search screen image

The needs search screen displays a yellow header with the title '(Supplier expansion)' and the text 'Foodstuff proposal including region limited foodstuff, processed marine products and additive-free foodstuffs'. Below the header is a section titled 'Details' with a list of search criteria: Industry, Region, Delivery date, Company name, and Annual revenue. Each criterion has a dropdown menu indicated by three dots. Below the search criteria is a yellow box with the title '(Collaboration)' and the text 'Proposal for “Overseas expansion highway” seminars and business meetings'.

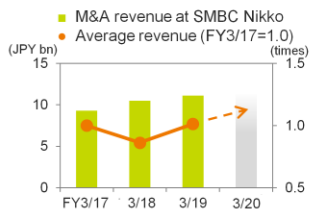
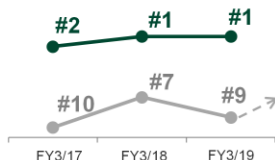
## Upgrade business unit operations (group collaboration)

- Provide high-value-added M&A advisory services by SMBC Nikko x SMBC in a booming M&A market.
- Support the growth of large, mid-sized and venture companies through venture-related alliance support.

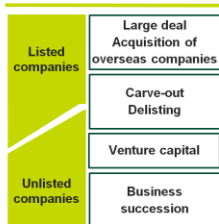
### M&A

#### High-quality deal sourcing for client's diverse needs

- M&A # of deals league table
- M&A rank value league table



#### Client's diverse needs

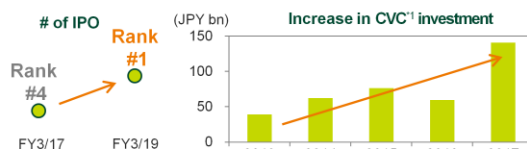


SMBC NIKKO x SMBC SUMITOMO MITSUI BANKING CORPORATION

- Enhance global collaboration
- Improve capability for cross-border M&A
- Utilize PE funds
- Propose MBO
- Support alliance
- Identify sale needs
- Provide digital M&A matching services

### Support venture companies

#### Focus on alliance support for open innovation



#### Identify Growth support Further growth



\*1 Investments in ventures that have the potential to generate synergies by operating companies that do not have investment business as their core business (Corporate Venture Capital)

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Now I will explain the initiatives for upgrading business unit operations based on our strengths.

First is M&A. Please see the bottom left. Customer needs are diversified in the M&A market, such as cross-border M&A, carve-out and business succession.

In this area, SMBC Group has an advantage in terms of the volume of information as demonstrated by our #1 position in the M&A number of deals league table for two consecutive years. We believe that we will be able to further expand profits by improving the quality of each deal leveraging our strengths.

Second is the venture-related business as shown on the right. We have established a strong position in the venture company network as we are ranked #1 in the number of IPO deals. Also, promising ventures gather at "hoops link tokyo", an open innovation platform located in Shibuya.

We believe that there are many business opportunities by providing services tailored to each company at various stages such as equity investments, M&A, business alliances and IPOs.

For example, as shown on the bottom right, large corporations have innovation needs that are beyond their technology or are not limited to their business model. CVC (corporate venture capital) are increasing.

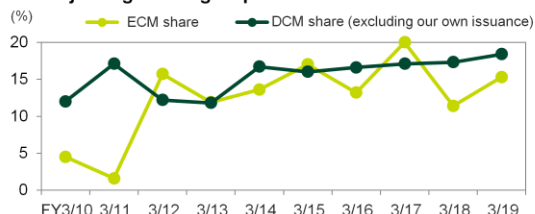
In order to link large corporation's needs with venture company's technology and idea, we are hosting pitch events, which leads to the improvement of corporate value for both parties.

## Upgrade business unit operations (initiatives by each group company)

- **SMBC Nikko:** Approach from multiple angles amid severe stock market conditions.
- **SMBC Trust:** Showed steady growth. Enhance group collaborations in real estate brokerage to secure a stable earnings base.
- **SMFL:** Showed growth by developing various businesses. Expand business areas for further growth.

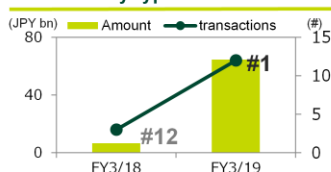
### SMBC Nikko

- Have been enhancing wholesale business capability since joining SMBC group



- Established Investment Banking Strategy Department to enhance business capability

#### Facility-type finance<sup>\*1</sup>

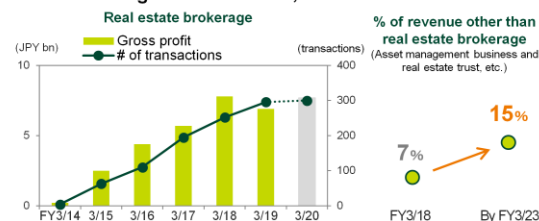


#### DCF<sup>\*2</sup>

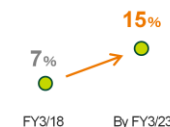
- Commenced in 2018
- Currency hedging transactions for cross-border M&A

### SMBC Trust

- Enhance group collaboration<sup>\*3</sup> in real estate brokerage, asset management business, etc.

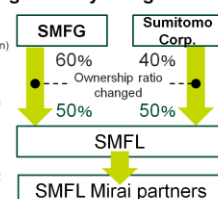
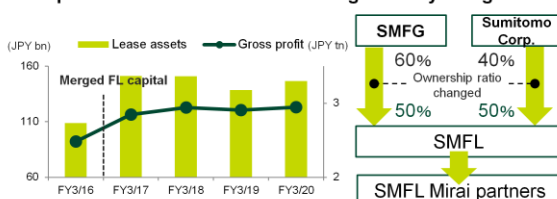


% of revenue other than real estate brokerage (Asset management business and real estate trust, etc.)



### SMFL

- Expand business areas for further growth by reorganization



<sup>\*1</sup> Financing and recapitalization using third-party allotment <sup>\*2</sup> Deal Contingent Foreign Exchange. Exchange-rate transactions that can be cancelled at zero cost in the event that a M&A deal is not completed due to factors other than client's own reasons in cross-border M&A transactions

<sup>\*3</sup> CRE proposal for operating companies

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Next, I will talk about initiatives by each group company.

SMBC Nikko has increased its presence in the wholesale business since joining SMBC group and now has decent market share.

On the other hand, as the current stock market condition is severe, we need to take a different approach to expand our business.

Please see the bottom left. The number of facility-type finance has increased in the market. This is a more flexible financing method than public offerings or CBs. SMBC Nikko has increased the number of these transactions significantly in FY3/19.

In connection with the M&A deals I mentioned earlier, we began handling currency hedging products for cross-border M&A, called DCFX last year. This enables us to capture new revenue opportunities.

The top right is SMBC Trust. We launched this business in FY3/14, starting from scratch. We have expanded its real estate brokerage business.

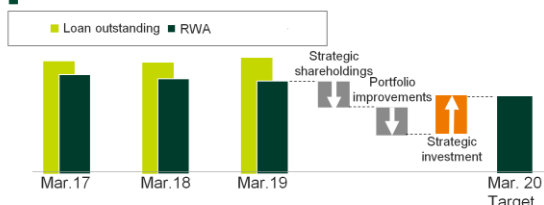
On the other hand, real estate brokerage is a business that is susceptible to market fluctuations. In order to secure stable earnings, we will strengthen CRE proposals for industrial companies and engage in asset management and real estate trust businesses. These businesses are less susceptible to market fluctuations.

The bottom right is SMFL. While the domestic leasing market is sluggish, we are aiming for further growth by developing new businesses through the reorganization of SMFL. We have recently established SMFL Mirai Partners, a new company that will promote these initiatives.

## Appropriate portfolio control

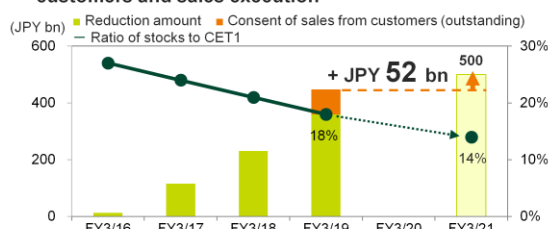
- Continue appropriate RWA control by selling strategic shareholdings and rebalancing loan portfolio while maintaining the balance.
- Steady progress in reduction of strategic shareholdings. Achieve the target by utilizing a variety of sales methods.
- Reallocate RWA in high value-added loans, LBOs and revitalization support, etc.

### RWA control



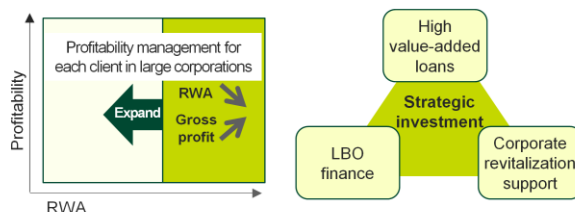
### Strategic shareholdings

- Steady progress in gaining consent of sales from customers and sales execution



### Portfolio management

- Enhance profitability management for each client with a focus on RWA and profitability
- Promote high value-added loans and curve out with a aim of LBO finance



- Upgrade management system to prepare for changes in credit cycles and non-financial risks

- Credit management by each industry
- Early detection of market changes and deterioration
- Proactive risk and profitability management on a client-to-client basis (visualize non-financial risks)

Finally, I will talk about appropriate portfolio control.

The top left shows trends in loan outstanding and RWA. We are aiming to reduce RWA by selling strategic shareholdings and portfolio improvements while maintaining the loan outstanding. Then we will reallocate RWA into high value-added loans. We will continue appropriate RWA control.

The bottom left shows the reduction of strategic shareholdings. We are making steady progress and expect to reach the target of ¥500 billion in FY3/21 with ¥52 billion remaining.

Customers' stance seems to be changing by the revision of the corporate governance code last year. We continue to talk with customers to gain their understanding and proceed with our plans.

The right-hand side shows portfolio management.

In FY3/19 as for large corporate customers, we reviewed our profitability management for each client with a focus on RWA and profitability. Due to this effort, we were able to increase gross profit while reducing RWA. In FY3/20, we are greatly expanding the scope of this approach. On the other hand, industry restructuring and business succession has increased. In this area, we can expect high returns through high value-added loans, LBO financing, and support for corporate revitalization by leveraging our credit assessment expertise. We will strategically allocate our resources in this area.

Please see the bottom right. We believe that we should pay attention to non-financial risks such as credit cycle changes, scandals, and fraud risks.

While the reversal of credit costs is not expected going forward, in order to achieve stable ROE, we will prevent the occurrence of credit costs by establishing a management system that clearly identifies the signs of risks.

We will continue to promote proactive and defensive initiatives in FY3/20.



# International Business Unit

Masahiko Oshima, Deputy President and Executive Officer

## Progress of Medium-Term Management Plan / Strategy

### Financial results

(JPY bn)	FY3/19	YoY <sup>*1</sup>
Gross profit	689.6	+31.2
Expenses	333.4	+22.2
Overhead ratio	48.3%	+1.1%
<b>Net business profit</b>	<b>395.1</b>	<b>+3.6</b>
<b>ROE</b>	<b>9.3%</b>	<b>(1.1)%</b>
<b>RWA (JPY tn)</b>	<b>22.3</b>	<b>+1.1</b>

### KPI

	FY3/20 targets (vs FY3/17)	FY3/19
Bank-securities collaboration	# of active book runner (securities)	1.5x 2.3x
	# of cross-selling related with securities	2x 4.3x
Asset turnover	# of O&D transactions on focused products	1.5x 3.2x
Asia-centric "Next Stage"	# of key clients in Asia	+15% +32%
	Non-asset based profit in Asia	+15% +56%
	Profit from multi-franchise strategy in Indonesia	1.3x 1.4x



\*1 After adjustments of the changes of interest rates and exchange rate

### Progress

#### Steady progress in key initiatives

Bank-securities collaboration	<ul style="list-style-type: none"> <li>Expand cross-selling through strengthening collaboration</li> </ul>
Enhance products where we hold strengths	<ul style="list-style-type: none"> <li>Progress in asset turnover business (O&amp;D)</li> <li>Enhance products → Raise ranks in the league table</li> </ul>
Asia-centric	<ul style="list-style-type: none"> <li>Merged BTPN and SMBC Indonesia</li> <li>Enhanced non-asset based profit</li> </ul>
Disciplined business operations	<ul style="list-style-type: none"> <li>RAF-based portfolio management</li> <li>Initiated upgrading governance structure</li> </ul>

### Strategy to improve ROE

#### Achieve the medium-term management plan target ahead of schedule

#### Promote key initiatives



First, I will talk about the progress of the Medium-Term Management Plan and our strategy going forward.

As shown on the top left, in FY3/19, net business profit rose by ¥3.6 billion year-on-year to ¥395.1 billion and ROE was 9.3%, which exceeded our target of 9% by steadily promoting key measures during the second year of the Medium-Term Management Plan.

Gross profit rose by ¥31.2 billion year-on-year to ¥689.6 billion. This was mainly due to an increase in non-asset related income such as from deposits and FX fees which offset the weak performance of the securities business due to sluggish market conditions.

Expenses increased by ¥22.2 billion year-on-year as a result of BREXIT preparation and the consolidation of BTPN.

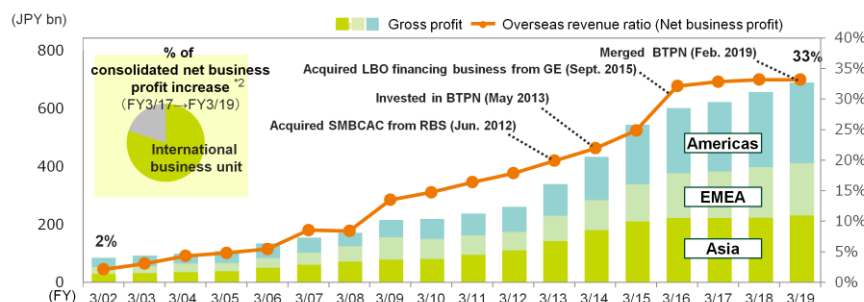
As shown on the bottom left, all KPIs surpassed targets of the Medium-Term Management Plan. In addition, we have showed steady progress on our key initiatives as shown on the top right. I feel that we have made solid progress.

The bottom right outlines the key initiatives of our management strategy going forward. In FY3/20, we will continue to implement key measures to achieve the Medium-Term Management Plan target and focus on medium-term initiatives to pursue sustainable growth of the International business unit.

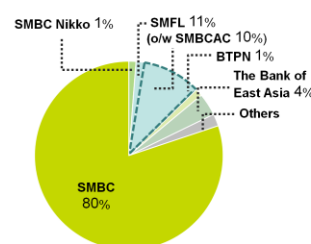
## Initiatives for sustainable growth - Growth driver of SMBC group -

- 1) Shift to a growth model that does not excessively rely on B/S expansion
- 2) Maximize group strengths
- 3) Disciplined business operation

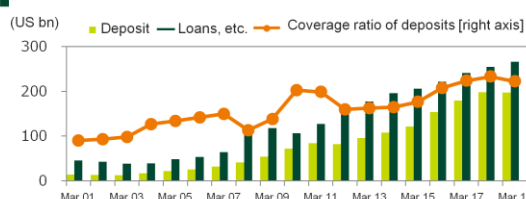
### Results of International business unit<sup>\*1</sup> (gross profit, overseas revenue ratio)



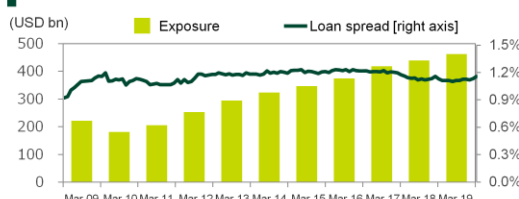
### Breakdown of net business profit<sup>\*3</sup>



### Foreign currency deposit funding to bolster sustainable growth



### Spread-conscious portfolio management



<sup>\*1</sup> The figures are the sum of SMBC and overseas subsidiaries basis until FY3/17 and on a consolidated basis after that.

<sup>\*2</sup> After adjustments of the changes of interest rates and exchange rates <sup>\*3</sup> Managerial accounting basis. As of Mar.19

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First, I would like to talk about the long-term results of the International business unit as shown on the top left. We have accelerated our growth since the repayment of public funds which completed in 2006. Our overseas gross profit has increased by about 10 times compared to 2001 and our overseas revenue ratio has increased from 2% in FY3/02 to 33% in FY3/19. About 80% of the increase in consolidated net business profit for the last 2 years came from the International business unit. We have made a significant contribution to SMBC Group's revenue.

During this growth process, we acquired the aircraft leasing business from RBS and European LBO finance business from GE. We also invested in BTPN, a mid-sized commercial bank in Indonesia to enhance our Asia business. In February 2019, we merged BTPN and our Indonesian local subsidiary to create Indonesia's eighth largest commercial bank in terms of assets covering both the retail and wholesale businesses. Also, we have increased foreign currency deposits as the core of our funding base as shown on the bottom left. We are working to reduce our reliance on high-rate deposits and expand low-cost liquidity deposits to enhance our quality in funding.

The International business unit is steadily growing. We are currently focusing on three initiatives to achieve sustainable growth.

First is to "Shift to a growth model that does not excessively rely on balance sheet expansion". Risk in foreign currency funding will remain no matter how much we strengthen our funding base. We are working on shifting to a more profitable, high efficient and sustainable growth model rather than simply pursuing an increase of top-line revenues.

Second is to "Maximize group strengths". The breakdown of net business profit is shown on the top right. The profit from SMBC has accounted for 80% of the net business profit of the International business unit in recent years. While overseas revenues at SMBC Nikko declined in FY3/19 due to the challenging market environment, I believe there is room for further revenue growth at group companies including capital market-related businesses and inorganic strategies.

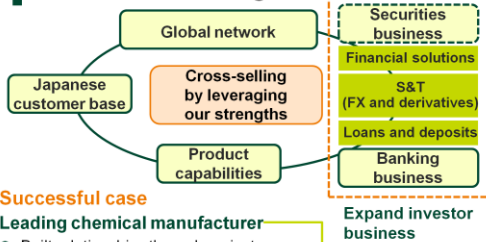
Third is "Disciplined business operation". As you can see in the graph on the bottom right, we have maintained the level of loan spread through profitability-focused management while expanding our balance sheet. In this way, we will enhance our business base to achieve sustainable growth by strengthening disciplined business operation including the control of loan spread as well as maintaining a healthy balance between "defensive" and "offensive" management.

## 1. Shift to a growth model that does not excessively rely on B/S expansion

- Strengthen various measures to improve asset and capital efficiency
- Establish a business model that align "strengths"

Accelerate capturing business opportunities and achieve sustainable growth with high efficiency

### Promote cross-selling

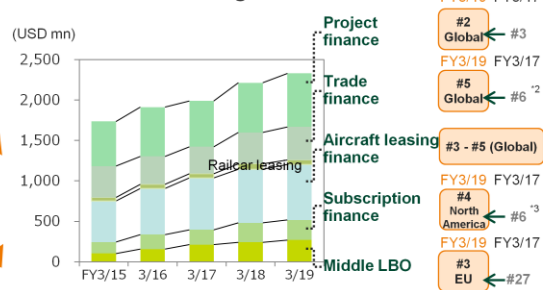


#### Successful case

##### Leading chemical manufacturer

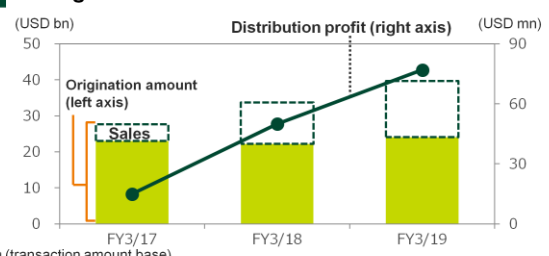
- Built relationships through project financing and M&A financing
- Acquired derivative transactions in 2017 and first book-runner mandate in 2018

### Enhance products where we hold strengths (gross profit)<sup>\*1</sup>

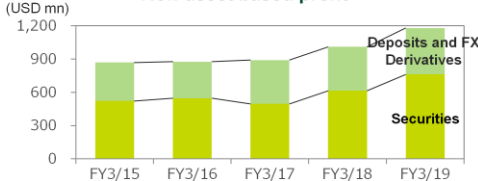


Alignment  
Sustainable growth with high efficiency

### Strengthen asset turnover business



### Non-asset based profit



<sup>\*1</sup> League table source : PFI, Dealogic, etc. <sup>\*2</sup> ECA finance <sup>\*3</sup> Our estimation (transaction amount base)

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Next, I will talk about the three strategic initiatives for sustainable growth.

First is to "shift to a growth model that does not excessively rely on B/S expansion" with a focus on asset and capital efficiency.

Please see the concept diagram on the top left. SMBC Group's strength lies in (a) its strong customer base and capability to expand business in Japan, (b) steady expansion of commercial banking business globally, especially its broad branch network in Asia, and (c) its world top-class products such as project finance and aircraft finance.

We will accelerate cross-selling by leveraging these strengths across regions. At the same time, we will integrate our banking business and securities business to strengthen our investor business, which has significant growth potential and accelerate expanding business opportunities by leveraging our strengths.

Here, let me introduce an example of good cross-selling with a leading U.S. chemical manufacturer. For this client, we built up our business relationship through JV projects with Japanese companies and project finance transactions in emerging countries by leveraging our Japanese customer base and our expertise. We were able to enhance our relationship with its headquarter through these efforts. In addition, we were able to further enhance our reputation as being an arranger for a M&A finance transaction, which we showed speedy execution. As a result, we were able to get ancillary businesses including derivative transactions and received the first active book-runner mandate in DCM.

As shown in the bottom left, non-asset based profits have steadily increased through these initiatives.

The top right shows products where SMBC group has strengths such as aircraft finance and project finance. The bottom right shows that we have been strengthening the asset-turnover business and O&D.

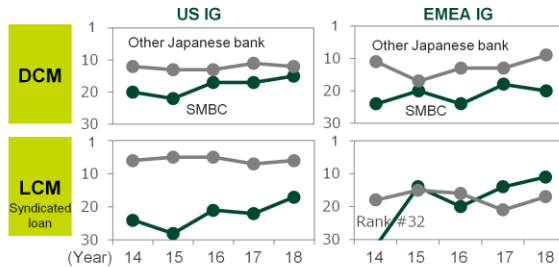
What I would like to emphasize here is that it is not only important to strengthen each product but also to maximize the strengths of the products in a comprehensive manner. The plan is to raise our reputation from customers by leveraging our global strengths in all regions, which should lead to further cross-selling. Through these initiatives, we will steadily improve asset and capital efficiency.

## 2. Maximize group strengths

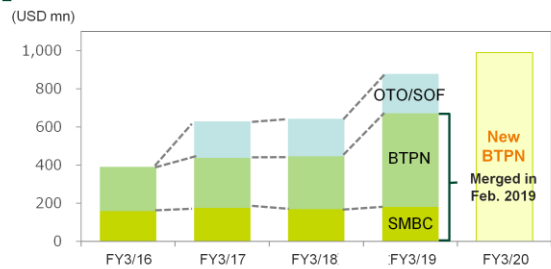
- Promote cross-selling through group collaboration by leveraging our strengths
- Further accelerate the multi-franchise strategy

Strengthen revenue capability of non-banking business

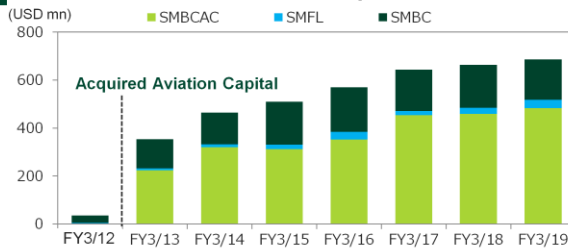
### DCM and LCM League table <sup>\*1</sup>



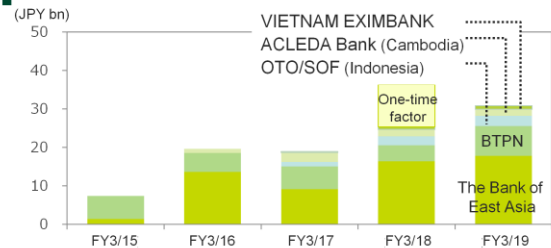
### Multi-franchise strategy in Indonesia (gross profit)



### Aircraft business of SMBC Group (gross profit)



### Contribution of investments made in Asia <sup>\*2</sup>



<sup>\*1</sup> Source: Dealogic

<sup>\*2</sup> The Bank of Asia: Includes JPY 11 bn of one-time factor in FY3/18 (gains on sales of its subsidiary)

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Next is to "Maximize group strengths".

Up to now, SMBC was the growth driver as it accounted for approximately 80% of group revenues. Going forward, we will focus on strengthening the profitability of non-bank entities through group collaboration and further execution of the multi-franchise strategy to achieve sustainable growth.

As shown on the top left, we have increased our position in the syndicated loan market by enhancing our business capability globally. The position in the league table for bond underwriting also improved by leveraging the bank-securities collaboration. The securities business is an area where we can still enjoy growth considering the large global earnings pool.

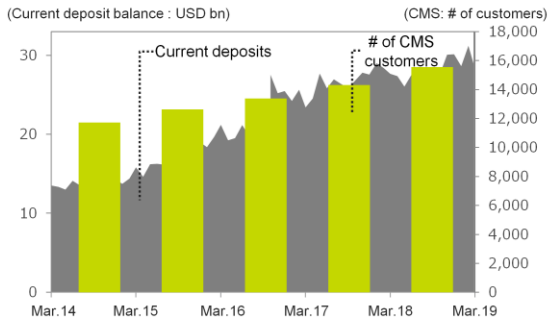
The bottom left shows the aircraft business. Since the acquisition of SMBC Aviation Capital in June 2012, aircraft-related revenues have grown to over \$600 million. Although the aircraft business is a niche field, we will continue to strengthen this business because of its further growth potential in the mid- to long-term and high asset-efficiency.

The top right is the multi-franchise strategy-related gross profits in Indonesia. We are aiming to expand our business on a mid- to long-term basis by strengthening our digital banking services such as Jenius and by capturing the growth of the middle-class customers through group companies' collaboration centered on the new BTPN.

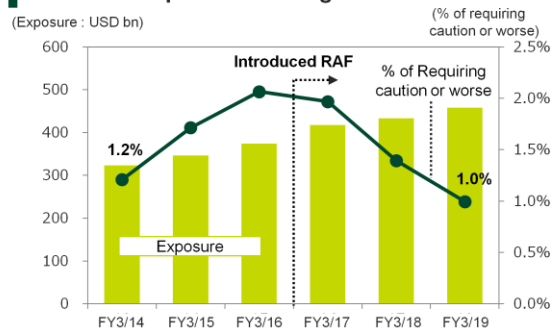
The bottom right shows the contribution of investments made in Asia to the consolidate net business profit. We are strengthening the collaboration not only with BTPN but also with our Asian partners to expand business and profits. We are also actively considering expanding the multi-franchise strategy into new targeted countries.

### 3. Disciplined business operations

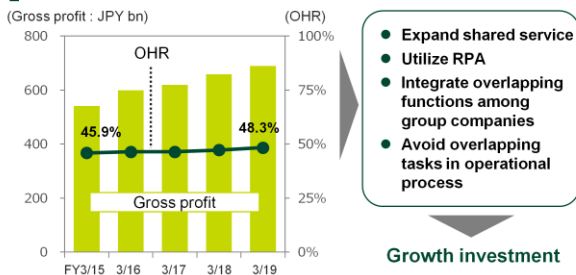
#### Enhance low cost and sticky deposits (CMS)



#### RAF - based portfolio management



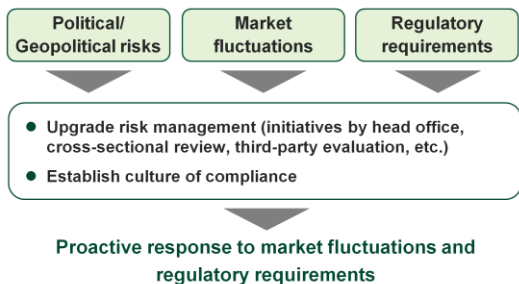
#### Cost control



- Expand shared service
- Utilize RPA
- Integrate overlapping functions among group companies
- Avoid overlapping tasks in operational process

Growth investment

#### Upgrade governance for sustainable growth



\*1 Risk appetite framework (RAF): Internal control framework formulated based on our risk appetite for achieving management targets related to business plans and earnings targets, risk management policies, and maximum risk exposure and losses

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Last is "Disciplined business operations".

Through disciplined management, we are aiming to achieve sustainable growth by enhancing both "defensive" and "offensive" operations in a balanced manner.

The top left shows trends in current deposits and the number of CMS customers as an example of our initiatives to expand foreign currency deposits. Focus is put on "high-quality" liquid deposits, and we have increased the current deposit in line with the number of CMS customers. We have made a cross-unit project team to expand our mid- to long-term deposits and plan to accelerate this initiative.

As shown on the bottom left, the OHR is in the high 40% range. In FY3/19, we made a project team aimed at reducing expenses and strengthened cost control by centralizing back-office operations at shared service centers, improving back-office efficiency through the utilization of RPA, integrating overlapping functions among group companies, and avoiding overlapping tasks. We are making efforts to curb the rise in OHR to generate further investment resource for growth.

The top right shows trends in the total amount of exposure and the ratio of requiring caution or worse assets. Under RAF, we have flexibly adjusted asset composition according to the risk situation and conducted stable portfolio management. We are preparing to recognize and respond to any signs of change more quickly than before.

The right bottom shows our governance initiative. Recently, there have been signs of geopolitical risks, market fluctuations and rising regulatory requirements. We think it is increasingly important to respond quickly and flexibly to these changes. We will proactively strengthen our governance system to achieve sustainable growth.



# Global Markets Business Unit

Hiroshi Munemasa, Senior Managing Executive Officer

## Progress of Medium-Term Management Plan / Strategy

### Progress

- Made steady progress in all of the three core areas

#### Portfolio management

Risk taking in equities and bonds

Keep strong performance

#### Sales & Trading

Steady performance in FX at domestic and overseas. Struggled in fixed income

Slightly sluggish growth

#### Foreign currency funding

Diversify funding sources and expand the investor base

Issued covered bond

### Strategy to improve ROE

- Assess market changes carefully and rebalance portfolio appropriately
- Establish a solution business model to meet client's various needs
- Carry out robust foreign currency B/S management by optimally funding foreign currencies in accordance with the market environment

#### Portfolio management

- Respond to the uncertain and highly volatile market

#### Sales & Trading

- Enhance our capability to meet client's needs on a global basis
- Strengthen our solution capability for business corporations and institutional investors

#### Foreign currency funding

- Acquire funding in an optimal method in terms and currencies in accordance with the market environment
- Balance between stability and cost



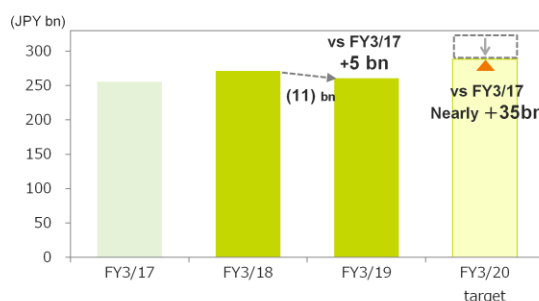
\*1 After adjustments of the changes of interest rates and exchange rates

### Financial results

(JPY bn)	FY3/19	YoY <sup>*1</sup>
Gross profit	333.6	+4.8
Expenses	54.2	(0.4)
Overhead ratio	16.2%	(0.4)%
Net business profit	298.5	+6.4
ROE	31.8%	+1.4%
RWA (JPY tn)	4.9	(1.2)

### KPI

#### Sales & Trading profits



Overall, the Global markets business unit made steady progress in three areas during the second year of the Medium-Term Management Plan.

First is "portfolio management". This is a business in which we make profits by controlling and taking risks mainly at SMBC. Although the overall industry performance in FY3/19 was weak due to high volatility and unstable market conditions, we were able to exceed the previous year's profits thanks to the success of risk-taking in both equities and bonds. In FY3/20, we will try to maintain profits by flexibly rebalancing our portfolio and closely monitoring changes in the market conditions.

Second is "sales & trading". This is a business that provides customers with market-related services to receive fees. As shown in the bottom right, sales and trading revenues declined by ¥11 billion year-on-year. SMBC was strong in FX-related transactions, but SMBC Nikko was weak in bond-related transactions. We have lowered the target of sales & trading profits for FY3/20 from the original Medium-Term Management Plan target considering the severe business environment. However, we think even the new target is not easy to achieve.

Third is "foreign-currency funding". Last year, we issued the first cover bond, an epoch-making deal. We will aim to achieve a balance between stability and low cost which are in a trade-off, and will continue to take various measures.

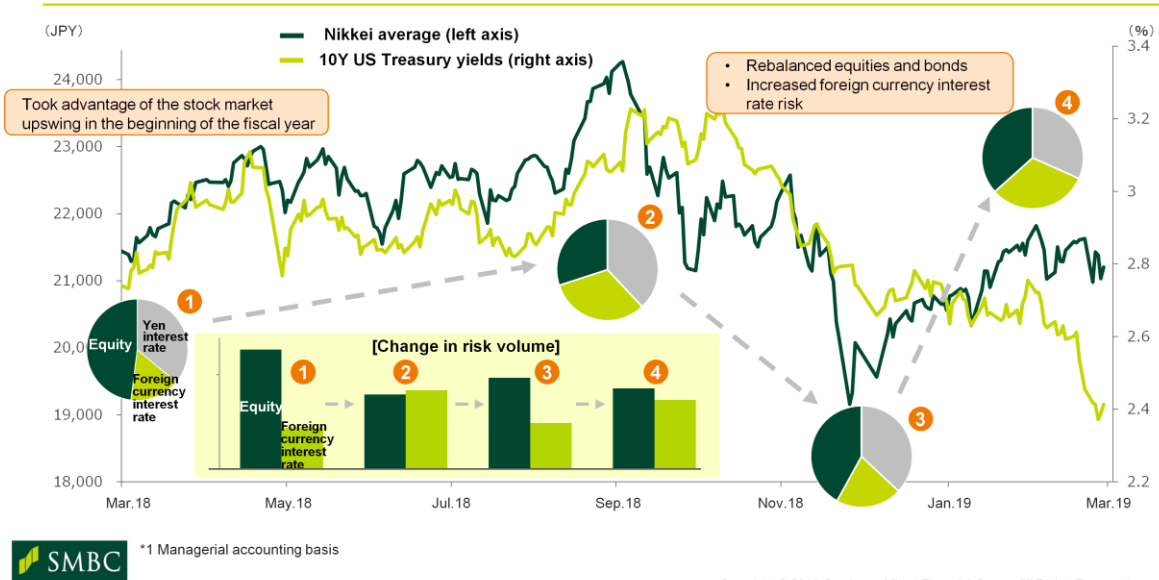
From the next page, I will talk about the three areas in more detail.

## Portfolio management

- FY3/19: Generated steady earnings by rebalancing equities and bonds in response to market changes
- FY3/20: Build earnings through detailed risk control and rebalance dynamically when market changes

### Image of portfolio management

FY3/19 Results (Changes in risk volume<sup>\*1</sup>)



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First is “portfolio management”.

The characteristics of the investment environment in 2018 was that the source of profit shifted from equity-related risks to bond-related risks, especially to foreign currency interest rate-related risks in the middle of the year.

The chart shows trends in the Nikkei stock average and 10-year U.S. treasury yields. The pie-chart shows changes in risk volume of yen currency interest rate, foreign currency interest rate, and equities at the time of Apr.18, Sep.18, Dec.18, and Mar.19. Additionally, we show the absolute risk volume of equity and foreign currency interest rate in the bar charts.

I would like to explain two points i.e. the portfolio shift from Apr.18 to Sep.18 and Sep.18 to Dec.18. In 1H, FY3/19 as the Nikkei stock average rose and the U.S. interest rate hike continued, we entered the market with a stance of focusing on equity and reducing interest rate-related risks. In the latter half of 1H, we rebalanced our portfolio by reducing equity-related risks substantially and doubling foreign current interest rate-related risks. After that, we entered into a risk-off market from Oct. to Dec. Especially towards the end of Dec., the stock market fell and credit market turned into turmoil. During that period, we increased equity-related risks. And finally, we increased foreign currency interest rate-related risks again toward the end of FY3/19.

The three points I mentioned last year were political risk, business cycle and monetary policy. I expect the points to look at for FY3/20 will remain unchanged. However in terms of monetary policy, I said last year that we would need to think about how long the U.S. interest rate hike continues

and whether the BOJ might take steps toward normalization. But now these possibilities are very low. Rather, I think it is important to think how much monetary easing will proceed including in Japan. If I were to add one to these key points, it will be credit cycle. Forecasting credit cycle is an important factor in our portfolio management. Portfolio management may become difficult because the variables we need to consider increases. However, our basic policy will not change. We will keep the same stance of actively rebalancing the market cycle.

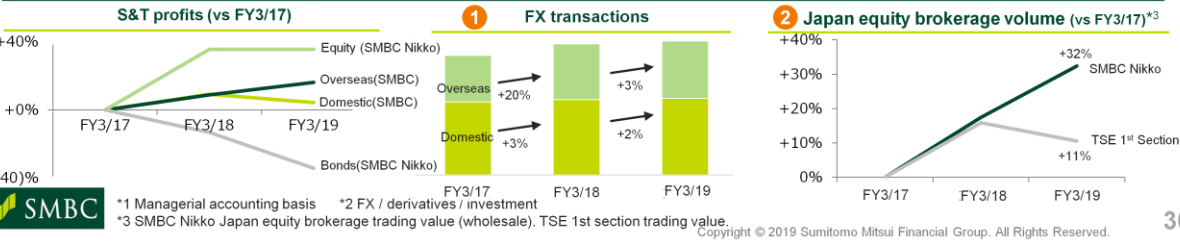
The Fed changed its monetary policy and entered into a monetary easing cycle. In FY3/20, I would like to work on how to make profit in this new environment.

# Sales & Trading

- Business environment: Volatile market due to political uncertainty and speculation in monetary policy. Investor's risk appetite decreased.
- SMBC: Steady performance in overseas FX due to strengthening of our local currency trading capability.
- SMBC Nikko: Increase in earnings from self-manufacturing of derivatives as well as an increase in market share of equity brokerage commissions.

## Self-assessment of FY3/19\*1

S&T profits		Trading capability	Customer reach	Product/solution	Business environment	FY3/19 Review	Key initiatives of FY3/20
SMBC JPY 209 bn YoY (1)%	Domestic*2 YoY (4)%					● Steady performance in FX despite of weak asset management due to environmental changes ①	● Enhance our solution-providing capability sophistication of data analysis
	Overseas*2 YoY +7%					● Steady performance in FX due to strengthening of our local currency trading capability ①	● Strengthen our capability to meet client's needs on a global basis
SMBC Nikko JPY 51.7 bn YoY (14)%	Equity YoY ±0%					● Increase market share of equity brokerage commissions despite decrease in fee pool ②	● Monetize customer flow through an improvement of trading capability
	Bond YoY (24)%					● Decrease in trading opportunities due to declining customer flow environment	● Strengthen asset management solution-providing capability for business corporations and institutional investors ● Increase cross-regional transactions such as U.S. dollar-denominated bonds



Next is “sales & trading”.

Sales and trading revenue decreased year-on-year because the investor’s risk appetite declined sharply. However, everything was not bad. I would like to explain two areas in which we made good progress even in such a severe environment.

First is the “FX business”. The FX business was strong both in Japan and overseas for SMBC. The revenue continued to grow in FY3/19. Our business is a persistent business that meets the needs of each customer who has business relationship with us as a commercial bank. We propose hedging transactions to be chosen as a counter party. We enhance such solution-providing initiatives cooperating with the wholesale business unit and the international business unit. In FY3/20, we will aim to further enhance solution-providing capabilities through the sophistication of data analysis.

Second is the “Japanese equity business”. Revenue growth was flat, but as shown in the chart on the bottom right, SMBC Nikko increased its market share despite the shrink of the Japanese market. We have also increased customer coverage. I believe that the enhancement of product lineup had led to an increase of the market share. In FY3/20, we will continue to increase our market share and strengthen our trading capability to make earnings through the trade flows.

Regarding bonds, derivative product revenue from structured bonds was good, while JGB-related revenue declined sharply. This was due to the decline in market volatility and the sharp drop in trading volume because of BOJ’s yield curve control. We think that the trend of the shrinking yen bond market will continue. In order to turn this into an opportunity, we will strengthen our asset management solution-providing capability for business corporations and institutional investors.

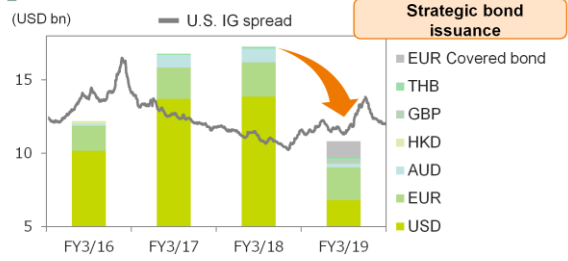
## Foreign currency funding

- Reduce cost through timely funding looking at the market environment and issue bonds strategically.
- Build a robust foreign currency funding base by enlarging our investor base and diversifying our funding sources.

### Mid- to long-term currency swaps (yen swaps)



### Corporate bond issuance



### (Ref) Foreign currency balance sheet \*1

Assets / Liabilities 464		Mar. 19
Interest earning assets 303	Deposits (incl. deposits from central banks) 222	
Others 103	Mid-to long-term funding (incl. corporate bonds, currency swaps, etc.) 106	
Foreign bonds, NCD 58	CDs & CP 70	
	Interbank (incl. Repo) 65	



\*1 Managerial accounting basis. Sum of SMBC, SMBC and SMBC (China)

### Cultivation of market

FY3/16- FY3/18		Diversifying funding sources and enlarging investor base
First among megabanks	Green bonds (USD)	
First as a Japanese bank	Formosa bonds/TLAC (EUR/AUD/EUR Green bonds)	
	Bonds denominated in various currencies (EUR/GBP/AUD/HKD/THB)	
FY3/19		
First in Japan	Covered bonds (EUR)	Aim to enlarge investors base and secure lower cost funding methods under stress scenarios
First as a Japanese bank	Foreign currency green bond for individuals (USD/ AUD)	Promote initiatives for the SDGs of SMBC Group

Last is “foreign currency funding”.

I would like to briefly talk about mid- to long-term funding within the foreign currency balance sheet, as shown in the bottom left.

Mid- to long-term funding, which is a stable funding source, consists of bond issuance and currency swaps. However, as we extend the duration, this will bring us not only stability but also rising costs. So, securing a balance is very important. The bond issuance cost and currency swap cost are often linked, but FY3/19 was the rare case that both costs moved in different directions.

As shown in the top left, in order to reduce the funding cost, we do not conduct currency swaps that much when the cost is high but would look to increase them when the cost is low. As you can see, we conducted a large volume of currency swaps in FY3/19 because the funding costs were at extremely low levels.

On the other hand, we issue bonds regularly. However, we skipped some issuances in FY3/19 because the credit market went bad in 2H, FY3/19. We were able to secure the volume of mid- to long-term funding despite the reduction in bond issuance because we conducted sizeable currency swaps. And, this led to lowering our cost.

In addition, we are trying to diversify our funding method. In FY3/19, we issued covered bond for the first time in Japan, a low-cost bond backed by domestic mortgages. We expect the potential of covered bond issuance would be several trillion yen. We expect the ratio of the covered bond issuance to overall mid-to long-term funding would increase to a certain

level in the future.

Finally, we need to capture subtle movements in the credit market for foreign currency funding operation. This is the reason why the Global markets business unit is responsible for foreign currency funding. By leveraging our edge, we will build an efficient, flexible, robust and stable funding base to support our overseas business and foreign currency-related business.



# Digital Innovation

Katsunori Tanizaki, Group CDIO

# Basic policy

## Promoting both DI and DX

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I will first talk about our group's digitalization strategy.

The business models of various industries are changing dramatically, as technology evolves and the society and economy is changing.

There is no exception for the finance industry. We ourselves have to change to an unprecedented level.

We divide digitalization into "proactive digitalization" and "defensive digitalization". Regarding "proactive digitalization", we believe we need to promote both "digital innovation" which is abbreviated as DI and "digital transformation" which is abbreviated as DX.

## Definition of digitalization

- Classify areas of digitalization into four areas (proactive / defensive).

Areas of digitalization		Contents / Purpose	Points
Proactive	Digital innovation (DI)	<ul style="list-style-type: none"> <li>Generate new business</li> <li>Develop platform business</li> </ul>	<ul style="list-style-type: none"> <li>Speedy creation of new business led by the innovation department</li> </ul>
	Digital transformation (DX)	<ul style="list-style-type: none"> <li>Transform business model</li> <li>Create customer benefit</li> <li>Achieve business strategy</li> </ul>	<ul style="list-style-type: none"> <li>Collaboration between business units and IT unit</li> <li>Verification focusing on progress of business plan and actual benefits</li> </ul>
Defensive	Digitization	<ul style="list-style-type: none"> <li>Cost reduction and operational improvement by automating manual operation / process</li> </ul>	<ul style="list-style-type: none"> <li>Transfer operations from business units to IT unit</li> <li>Verification focusing on cost reduction</li> </ul>
	IT infrastructure	<ul style="list-style-type: none"> <li>Establish flexible and solid infrastructure to support mid- to long-term business reform</li> </ul>	<ul style="list-style-type: none"> <li>Well-planned replacement while maintaining quality</li> <li>Centralized management by IT unit on a group basis</li> </ul>



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This slide shows our overall digitalization strategy. Today I will talk about proactive digitalization at the top.

First is DI. In recent years, the financial industry has entered in a turning point as services using AI and other new technologies are introduced and non-financial players entered the market. We ourselves are also committed to creating new businesses both in the financial and non-financial areas by taking advantage of these technological changes.

DX means to provide new value or experience particularly in the UX/UI areas through the use of technology. DX is the idea that innovating products and services change the relationship between customers and financial institutions. It differs from digitization which promotes automation of traditional operations/processes.

In the retail business, we are continuously working to improve customer convenience by retail branch reorganization and upgrade our internet banking mobile app.

In the wholesale business, we are also working to improve convenience through initiatives such as the creation of a business matching platform for corporate customers.

We need to promote DI and DX thinking about the synergies they create.

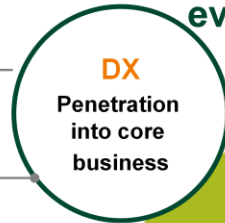
There are cases that we turn DX into a creation of new business. On the other hand, there are cases that SMBC may use services which was developed for customers in order to create new business.

As group CDIO, I have been driving the twin wheels of DI and DX to promote the digitalization of SMBC Group.

## Overview of proactive digitalization

From individual customers to corporate customers  
From department basis to group-wide basis

### Further evolution



Create new businesses that are not limited to the financial business

Utilize data for marketing and developing products

### Two methods



Collaborate with competitive outside partners

We believe that there are two important measures to achieve DX and/or DI.

First is the “Utilization of data”. Banks or credit card companies have a variety of data such as the deposit and withdrawal and customer profile. We have begun the integration of internal data and external data to find new value. We also started a demonstration experiment of Information bank that manages and utilizes personal data according to the client’s instruction.

Second is the collaboration with external players. Since it is difficult to identify the business opportunities or new ideas by ourselves, we are collaborating with a variety of external players to create new businesses.



Value and approach

Customer-oriented digitalization

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Next, I will talk about the digitalization approach.

We are promoting customer-oriented digitalization. It means that the position of the sun in the solar system is our customers.

## Digitalization approach / technology / value

- Customer-oriented. Utilize technology to increase the value for customers.

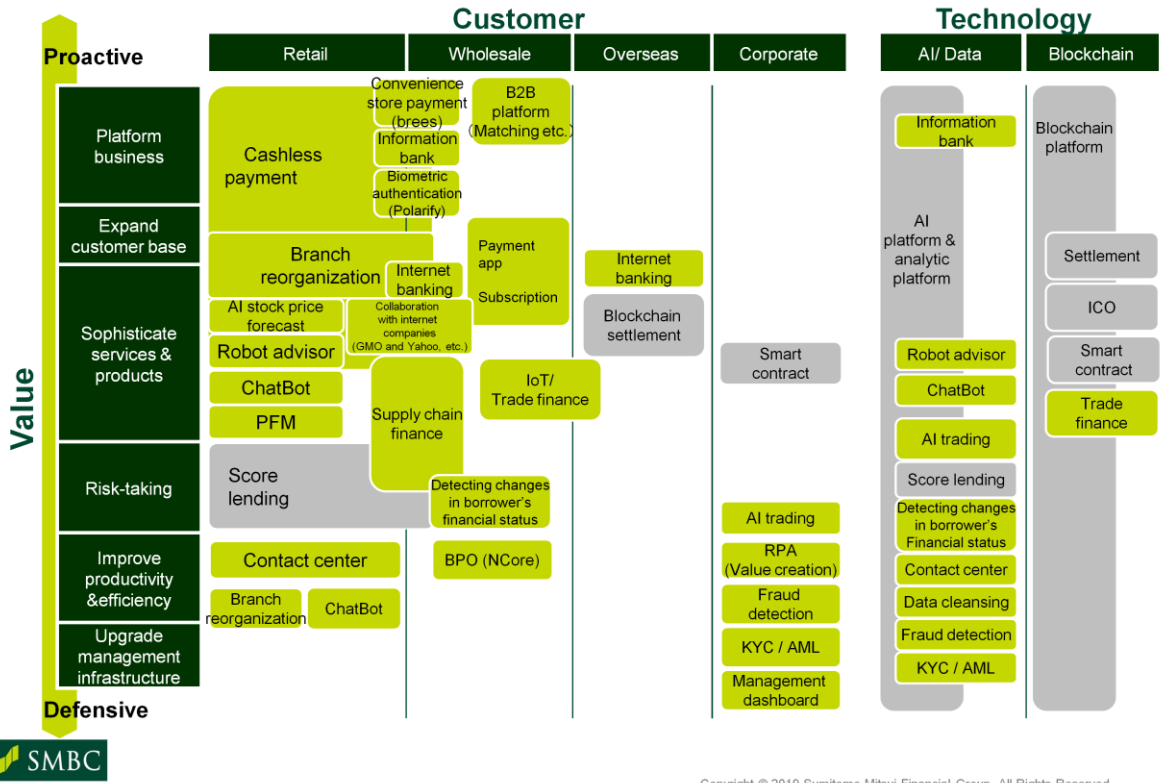


This diagram shows the image of customer-oriented digitalization.

First, we will consider seriously what is the value for our customers. We will first identify the technology necessary to provide new value. Then, we will consider how to realize this.

The initiatives on digitalization tend to be technology-oriented, and there are many cases that using AI or blockchain technology becomes the goal. On the other hand, we promote digitalization according to the customer needs by focusing on "Customer First".

## Roadmap for digitalization



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This slide is showing the measures we are currently working on based on the framework I explained earlier. At present, it gives an impression that there are many active initiatives in the retail business, but we are also promoting various initiatives in the wholesale and international businesses.

Again, our aim is to develop products and services as fast as possible with an eye on what is the value for our customers.

# Mindset

A person is silhouetted against a sunset sky, looking through a large telescope mounted on a tripod. A crescent moon is visible in the upper right corner of the sky. The scene is set on a dark, silhouetted landscape.

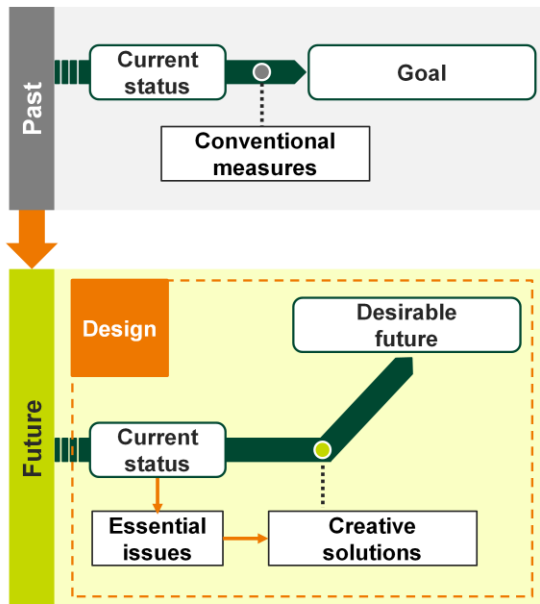
## Looking ahead to the future

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In order to continue digitalization, it is important to change the mindset of executives and employees. The stance of consistently looking ahead to the future is important in the current drastic changing and uncertain environment.

## ■ Utilize design process

- Promote creative solutions against challenges looking at the outlook for future changes.



This is “design process” which is a method frequently used in considering the future of an industry or company. The conventional approach is to set a goal on an extension of the current situation and take measures that follow the precedent. Going forward, it is important to identify the essential issues and promote creative solutions by ourselves while constantly imaging what are the desirable future.

The future map shown on the right is also an example of the use of “design process”. By anticipating changes in the society as a whole that are not limited to the finance industry, we will think about businesses two or three steps ahead of the trend. When we presented the future map at events such as CEATEC, we received many inquiries from external companies, and has brought us an opportunity to create new businesses with them.

A photograph of two men in a bar setting. The man on the left, with a beard and wearing a blue shirt, is holding a glass of beer and gesturing with his hand. The man on the right, also with a beard and wearing a red plaid shirt, is playing a trumpet. The background is blurred, showing other patrons and warm bar lighting.

# Create multiple ideas

## Open innovation tailored to Japanese situation

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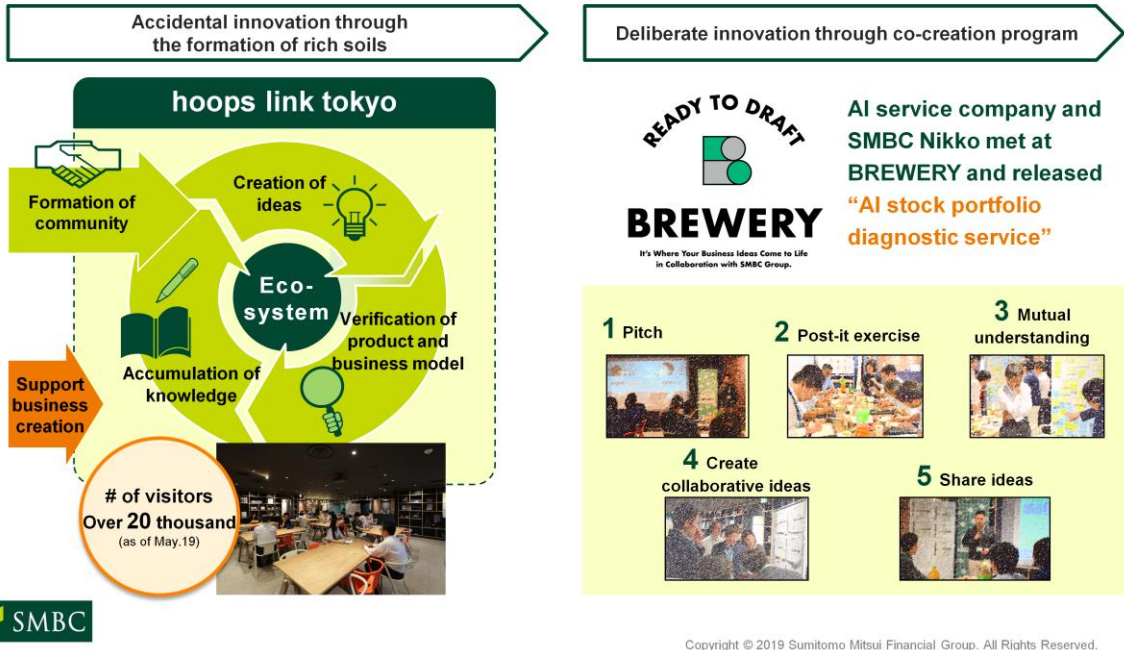
Next, I would like to talk about our approach to create ideas.

Collaboration with external companies, or so-called “open innovation”, is an effective method to promote digitalization. However, we do not intend to introduce the same open innovation mechanism used in Silicon Valley.

It is important to pursue open innovation that takes into account the unique elements of Japan, such as business practices, corporate culture, and various types of infrastructure in Japan.

## Sustainable system to create innovation

- Interact with outside players through “hoops link tokyo”.
- Create new business in collaboration with other industries at **SMBC BREWERY**.



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This slide introduces two initiatives for open innovation.

The left hand side shows “hoops link tokyo”, an open innovation platform we opened in Shibuya. This is a place where anyone with the enthusiasm to create new businesses can meet other players in an equal footing. It is used as a co-working and workshop space for both our employees and external partners. From its opening in Sep. 2017, more than 20,000 visitors came here where we held events of more than 400 times. Enthusiastic discussions are taking place day and night, and it is becoming an important function to promote our innovation. This is so to speak “Accidental innovation from contingent encounter,” but we are also working further to create “Deliberate innovation”.

The right hand side is “SMBC BREWERY” which is a program for co-creation of new businesses through collaboration between different industries and the SMBC Group. We have held these meetings six times, and nearly 180 ideas have been created. SMBC Nikko and HEROZ, a company famous for its AI program for Japanese chess, met in this program and launched an AI stock portfolio diagnostics service using HEROZ's algorithms this March. A number of other projects are also underway.

Going forward, we will continue to create new businesses through hoops link tokyo and SMBC BREWERY.



## Example in DX

## Provide new customer value

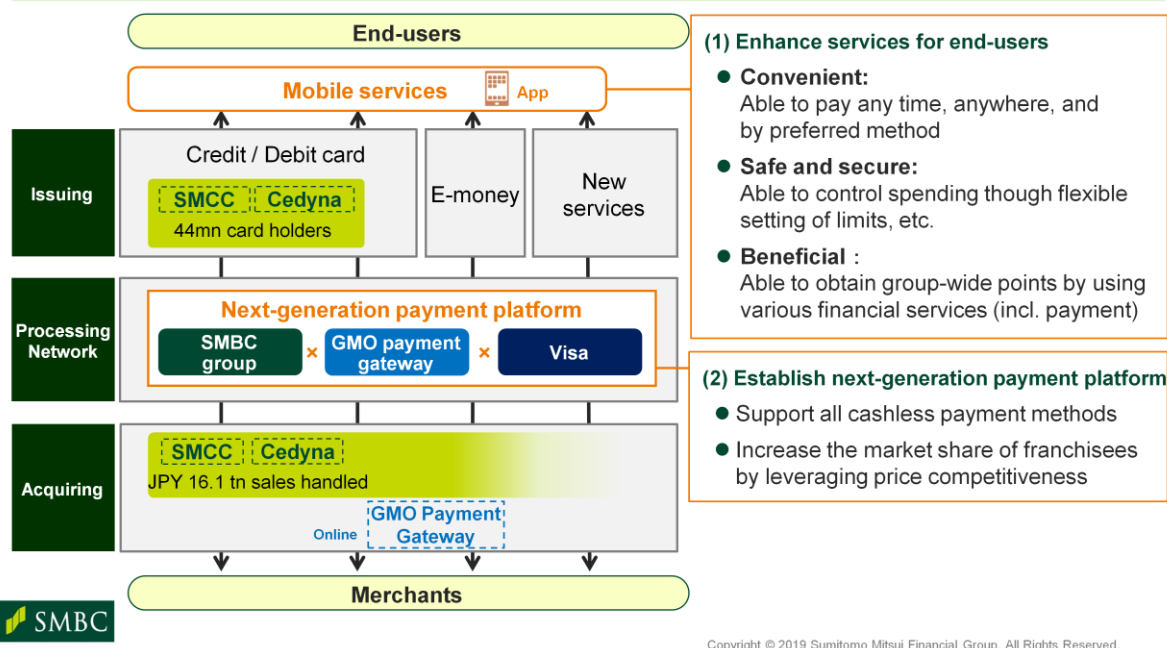
43

Next, I would like to introduce some examples of DX- and DI-related initiatives we are taking.

First is DX. Although this cannot be achieved overnight, we are taking a firm footing to provide new value for our customers.

## Example DX 1: Retail

- Build an open, flexible and low-cost payment platform as many payment methods emerge.
- Combine financial and IT solutions by vertical integration of issuing, processing and acquiring business.



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To start, I would like to talk about initiatives in the retail business.

At present, there are various cashless payment methods in Japan, such as credit cards, debit cards, and electronic money. The use of these methods is diversifying against the backdrop of the rapid expansion of e-commerce and the advancement of mobile devices.

However, the structure that enables cashless payment include payment centers and networks to process settlement data is extremely complex and costly.

Given these unique circumstances in Japan, we do not have intention to develop our own payment methods such as our own coin. Rather, we will be building a low-cost payment platform that support credit card, debit card, E-money and new services on both online and off-line channels.

We will build the system not by SMBC Group alone, but with GMO Payment Gateway and Visa that can support a wide range of businesses.

Specifically, our aim is to combine financial and IT solutions by vertical integrating issuing, processing and acquiring businesses.

## Example DX 2: Wholesale

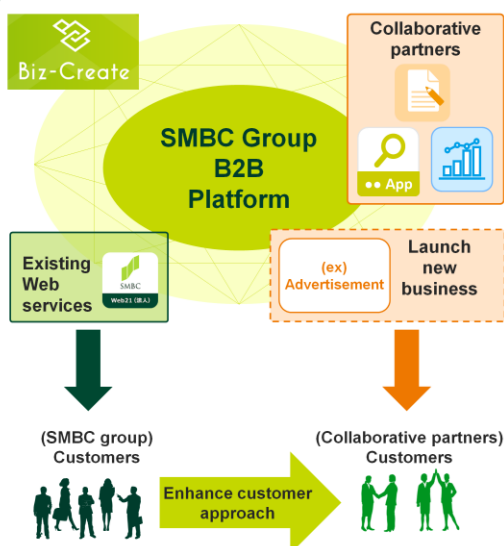
- Aim for a B2B platform that provides a full range of services and content through collaboration with partner companies.

### Biz-Create

- Introduced “Biz-Create” business matching platform as the first step of our B2B platform



### B2B platform concept



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This is the same slide that was in the wholesale business unit session.

I will not go over the details to avoid duplication, but we expect a significant progress in digitalization for corporate customers as well. We have introduced our customers to each other in the real world through business matching. Going forward, we are also considering to achieve this in the digital world. In the future, we will provide the services not only as a business matching platform, but also as platforms for various B2B services. We are preparing a variety of business contents for our corporate customers because we believe that we can provide a variety of services such as M&A deals on the platform. Our intention is to become a platformer for our corporate customers.

# New business model

## From internal use to external sales

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Next, I would like to talk about the new business models of SMBC Group.

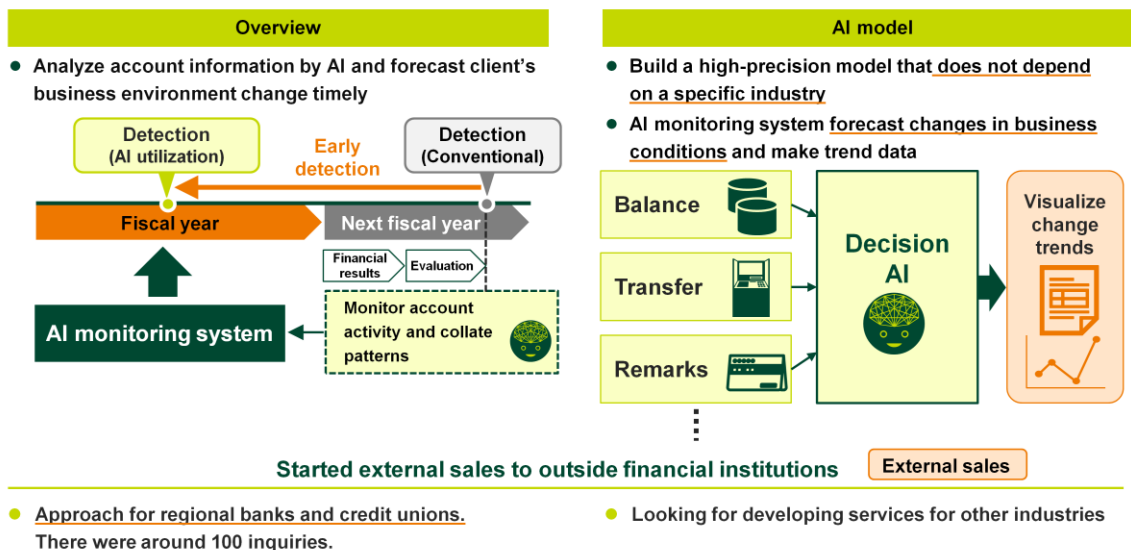
We intend to proactively provide customers with products that were originally launched within SMBC Group for DX purposes if such products are valuable for them.

We can recommend products and services to customers with confidence because we actually used them ourselves and know they are useful. For customers, the fact that “the SMBC Group is using them” backs “security” and “reliability.”

## From internal use to external sales

- Actively develop new external sales business by leveraging expertise within the group, such as AI and RPA.

### Detecting changes in borrowers' financial status



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I would like to give you some examples.

First is a model to detect changes in borrowers' financial status by using AI.

Traditionally, we used to detect changes in borrowers' business performance looking at their financial statements. But, now, we can detect changes timely through the use of AI by analyzing account information such as inflows and outflows of deposits and withdrawals.

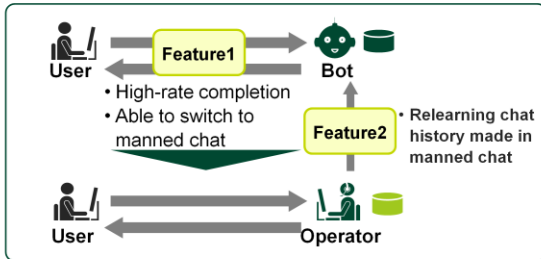
This was used within SMBC before, and started marketing it to our customers this February. We have received inquiries from about 100 companies mainly from regional banks. In the future, we will develop services for financial institutions, by integrating this to the platform service for corporate customers explained earlier.

## From internal use to external sales

- Actively develop new external sales business by leveraging expertise within the group, such as AI and RPA.

### Chat bot

- Developed AI chat bot for help desk operation
- Continue to improve dialogue by relearning chat history



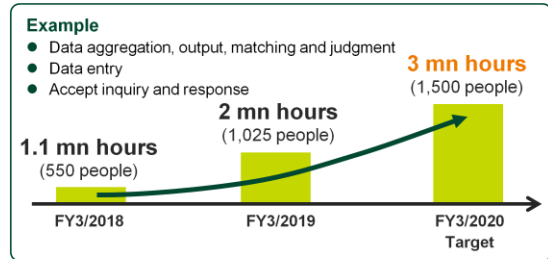
Started sales to outside companies

External sales

- Started external sales by providing licenses to IT vendors
- Contribute to improving operational efficiency and productivity for various industrial customers

### RPA (Robotic Process Automation)

- World's top-class usage
- Automate simple task and routine work



Established SMBC VALUE CREATION

External sales

- Established a new company to support client's introduction of RPAs
- Support clients competitiveness by leveraging SMBC group's knowledge (business alliance with UiPath)



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In this slide, I will give you two examples of external sales that were made after using them internally.

The left hand side is Chatbot. It was originally used within SMBC as an inquiry tool regarding PC operations and personnel procedures. We began external sales because we believed it could contribute to improve our customers' operational efficiency and productivity. We began selling these products to regional banks at first including Chiba Kogyo Bank and Saga Bank.

The right hand side is robotic process automation, so-called RPA.

SMBC has a track record of world's top-class usage of RPAs. We established a new division with external experts to automate simple and routine work. Also, we established SMBC Value Creation, a new company that supports customers to introduce RPA by leveraging our track record of using RPA. SMBC Value Creation started operations this April and they provide services not only to financial institutions but also to industrial companies.

Selling our AI or robotics know-how externally, which we have successfully implemented, is a new challenge that goes beyond the fixed concept of "financial services".

A person with a backpack is climbing a rocky hill at sunset. The sun is low on the horizon, creating a warm, golden glow. The person is seen from behind, wearing a dark shirt and shorts, with a green backpack. The sky is a mix of blue and orange, with some clouds. The overall mood is one of adventure and exploration.

# Example in DI

## Toward new fields as a platformer

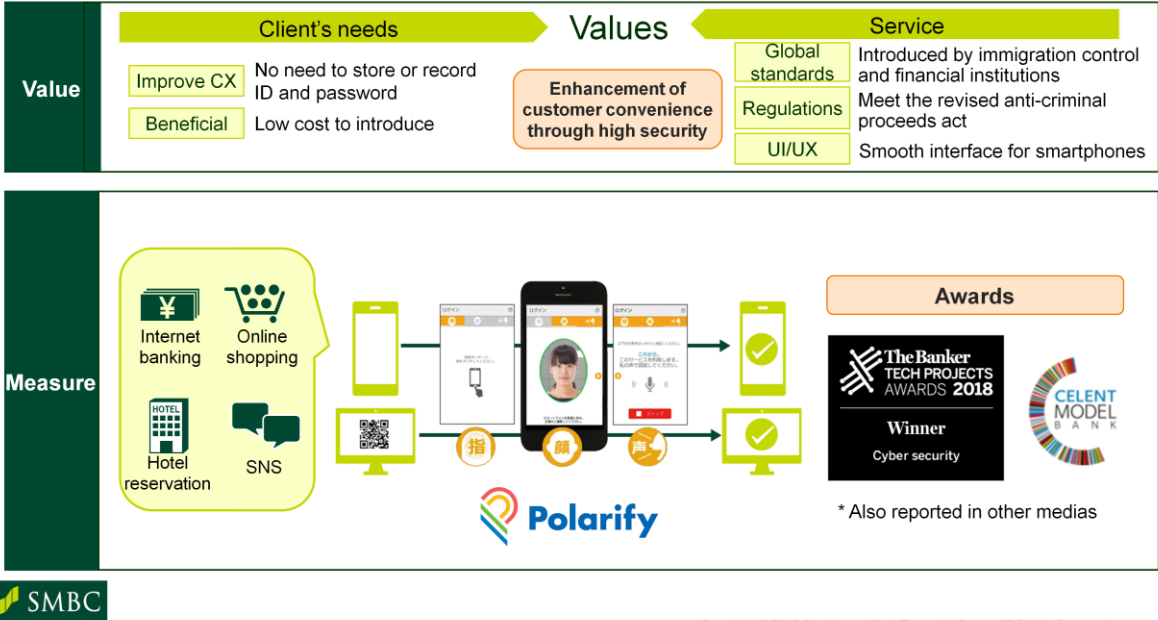
49

Next is examples of DI.

I explained that DI is trying to create a business that is not limited to the financial industry. We are working on new fields based on the trust and confidence we have gained.

## ■ Example DI 1:Polarify

- Provide a safe and smooth biometric authentication service that can be used on any smartphone by leveraging the trust as being a bank.
- Expanding services to meet new needs.



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First is Polarify that provides a biometric authentication service. This is a company established as the first approved project by the authorities after the revision of the Banking Law in 2017.

Individual customers have multiple IDs and passwords, and feel it is difficult to remember each combination. Polarify provides authentication service to individuals with biometric information such as voice, face, and fingerprints. For individual customers, they do not need to remember ID and password for each app after they introduce this system in their smartphones. For corporate customers, they can introduce biometric authentication service at a low cost than by creating them by themselves.

At present, we have improved the convenience of our certification functions and have begun providing SDK-style services. Nippon Life Insurance and other companies have introduced this system.

Polarify won the “Model Bank” from Celent, a prominent financial research firm in April 2018 and the “The Banker TECH PROJECTS AWARDS 2018” in cyber-security category from “The Banker”, the media under the Financial Times. Polarify has received high reputation worldwide.

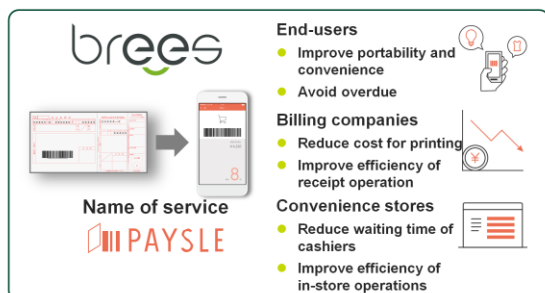
Our themes are to “monetize innovation” and “nurture platform businesses into profitable businesses”. We will continue to focus on these themes.

## Example DI 2:Information bank

- Launched a payment service using smartphone's electronic bar code, which can be used at convenience store in Sep. 2017. Benefit end-users, billing companies and convenience stores.
- Information bank manage data as the agent of personal users and make the ecosystem economically independent and pursue market development.

### PAYSLE

- Payment service using electronic barcodes
- Able to pay by cash in paperless fashion

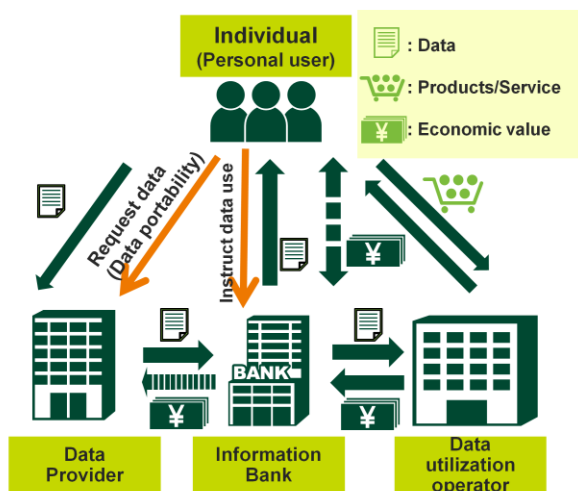


### Establish breees corporation

- Jointly established a new company with NEC
- SMBC Finance Service and SMBC GMO Payment acquire new customers. Expand to other payment agencies.



### Our information bank concept



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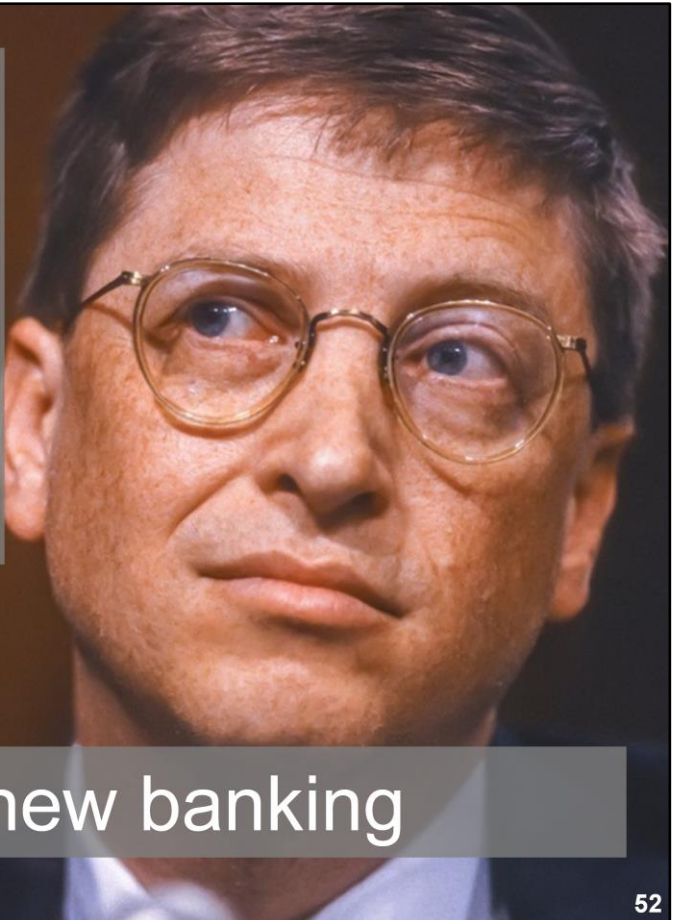
51

Next is PAYSLE on the left. This is a payment service using electronic barcodes at convenience stores. These services are beneficial to both individual customers and corporate customers, such as reducing printing and mailing costs, and preventing to forget payments.

We jointly developed a new company with NEC. SMBC Finance Services, a payment agent company within SMBC Group and SMBC GMO Payment are using this service.

Last is "Information bank". We are working on preparation for establishing an "Information Bank", which manage data as the agent of personal users and make the ecosystem economically independent and pursue market development. As announced, 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.

Providing safe and secure custody of personal data is a new social mission that financial institutions are expected to fulfill in the future. We believe that we can leverage the trust we have built over the years with our customers for this business.

A close-up portrait of Bill Gates, wearing his signature round glasses and a dark suit. He is looking slightly upwards and to the right with a thoughtful expression.

“Banking is  
Necessary.  
Banks are  
not.”  
-Bill Gates

## Toward new banking

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To conclude my presentation, more than 20 years ago, Bill Gates said “Banking is necessary. Banks are not”. This message is attracting attention again. It is true that the entry of technology companies into the financial industry has improved customer convenience. We are seriously considering what values we can provide to our customers in the financial field. We continue to look for new businesses that is not limited to our current business domain.