



# Management Strategy of SMBC Consumer Finance

October 2012

**On April 1, 2012, Promise joined the Sumitomo Mitsui Financial Group. On July 1, 2012, the Company was renamed SMBC Consumer Finance.**



The PROMISE logo mark design has been renewed. The new logo mark will be used as our service brand.

As the nucleus of Sumitomo Mitsui Financial Group's consumer finance business, we will continue to leverage our expertise in this field so that we can offer even more value and grow along with consumers and society.

# 1. Targets and strategies

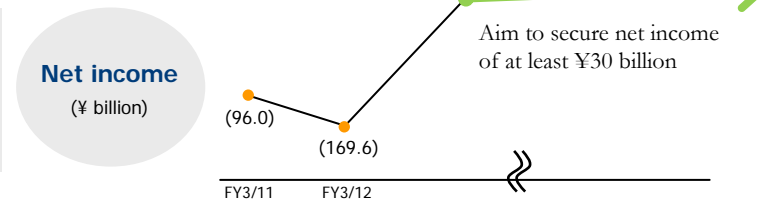
## Management policy

To be a globally trusted consumer finance company by operating our three core businesses: financing, loan guarantee, and overseas businesses.

## Management targets

**Management targets**

- Expand our three core businesses: financing, loan guarantee, and overseas businesses
- Strengthen credit management capabilities
- Establish a business model with high efficiency
- Upgrade risk management



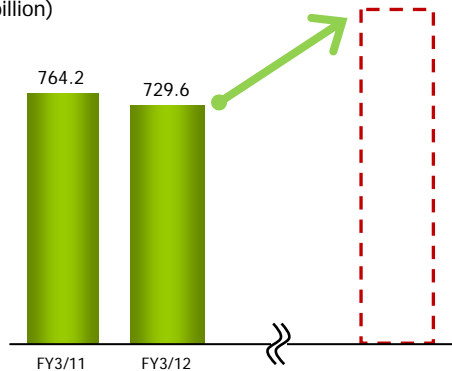
## Policies and strategies to achieve targets

### Three core businesses

#### Financing business

- Build a sound earnings base by establishing a high-quality loan portfolio
- Realign service channels by strengthening web activities and collaborating with SMBC

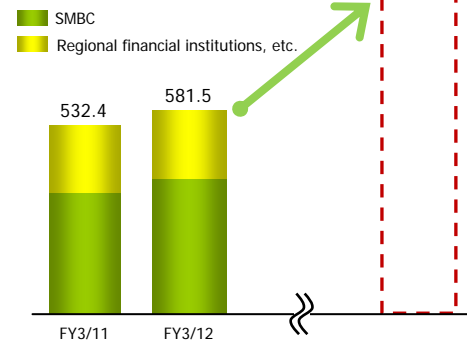
[Unsecured loans outstanding]  
(¥ billion)



#### Loan guarantee business

- Focus marketing activities on key clients
- Become Japan's leading loan guarantee company in terms of quality and quantity

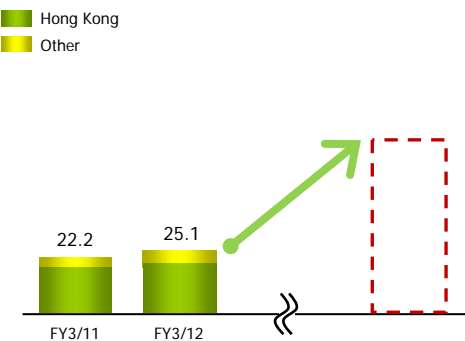
[Guaranteed loans outstanding]  
(¥ billion)



#### Overseas business

- Expand operations throughout Asia, particularly China
- Promote retail businesses in Asia by collaborating with SMBC

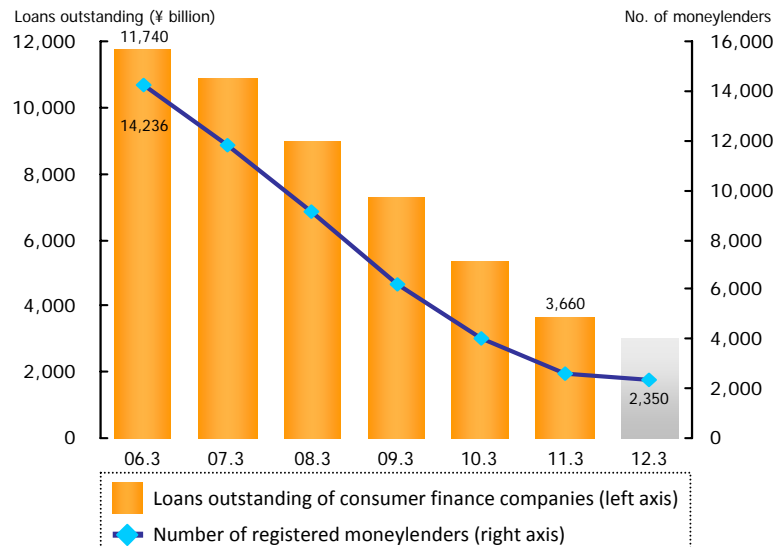
[Overseas loans outstanding]  
(¥ billion)



## Consumer finance market

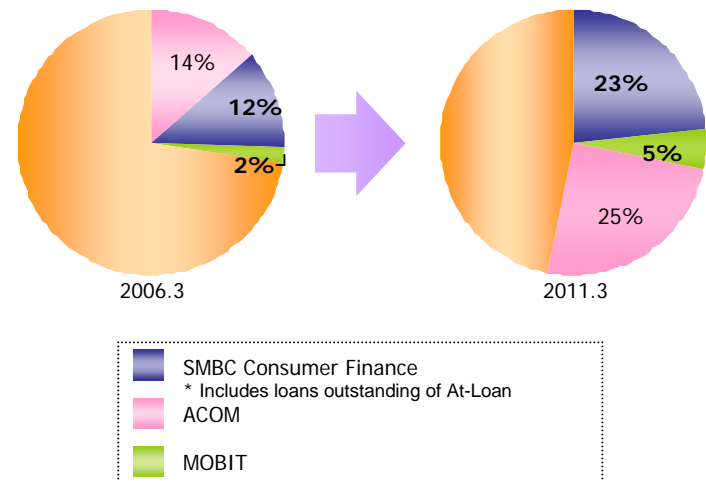
Consumer finance industry is realigning and becoming centered on only a few companies as the market contracts following full enforcement of the Money Lending Business Law.

Loans outstanding and number of moneylenders



Source: Financial Services Agency, Japan Financial Services Association

Loans outstanding share of consumer finance companies



Source: Financial Services Agency, Companies' financial results

## Recent developments at SMBC Consumer Finance

Shift to an aggressive marketing stance, due to an improvement of the quality of our loan portfolio

- May 2012 Consumer loans outstanding increased from the previous month for the first time in six years
- Jul. 2012 Launched new television commercial
- Sep. 2012 Announced acquisition of loan business of MOBIT (loans outstanding: ¥168.3 billion as of Mar. 2012) and conversion into a wholly-owned subsidiary

Declining trend in the number of interest refund claims

Number of interest refund claims (Apr.-Aug. 2012): 33,600 (down 41.7% YoY)

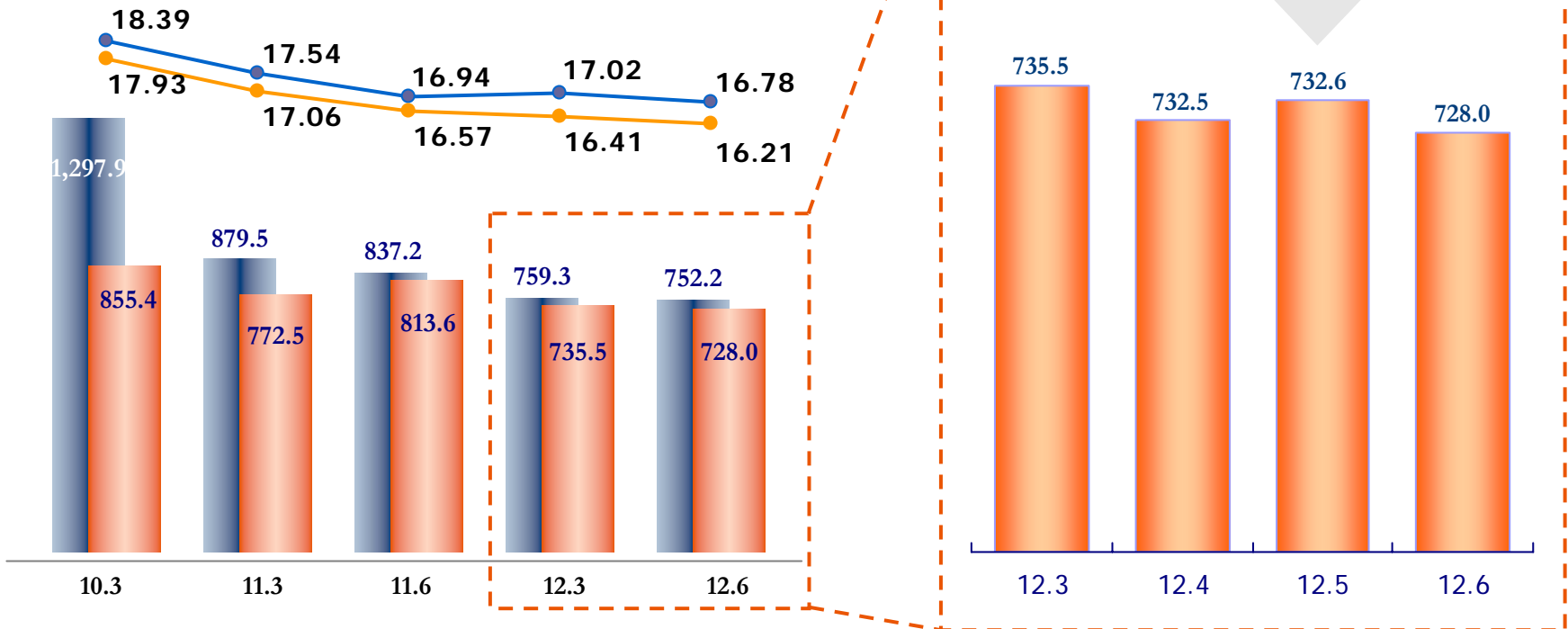
### 3. Business strategy: (1) Financing business

- While consumer loans outstanding is still on a downward trend, the rate of decline has slowed recently due to an increase in consumer loans receivable, driven in part by loans to new customers.
- In May, consumer loans outstanding increased from the previous month for the first time in six years.

#### Consumer loans outstanding / Actual average yield

(Billions of yen / %)

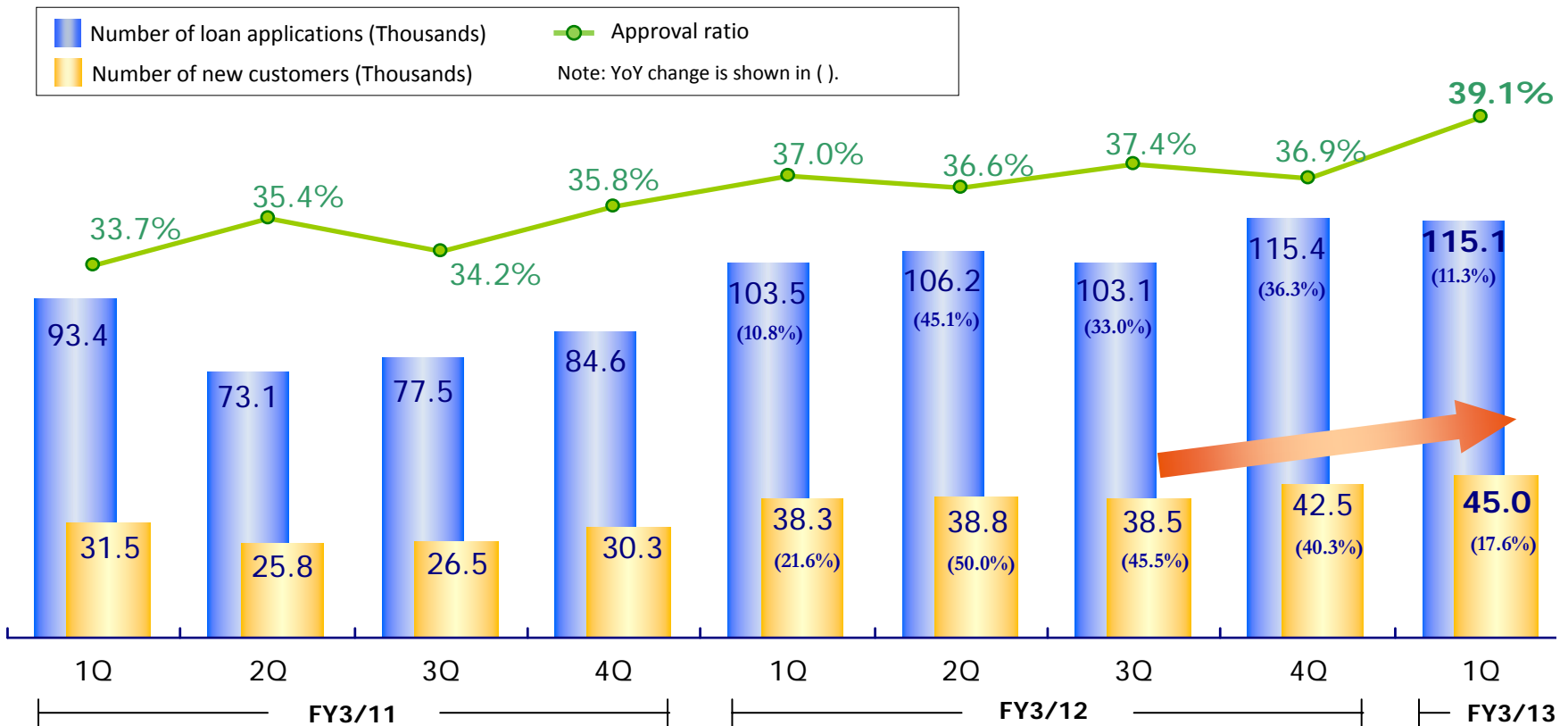
Consumer loans outstanding: Consolidated (blue bar), Non-Consolidated (orange bar)  
 Actual average yield: Consolidated (blue line), Non-Consolidated (orange line)



### 3. Business strategy: (1) Financing business

- Number of loan applications has been rising, propelled by stepped up web advertising and increased transactions with existing customers.
- Number of new customers has been increasing, due to detailed examination of credit lines and faster contract formalities process.

#### Number of new customers / Approval ratio



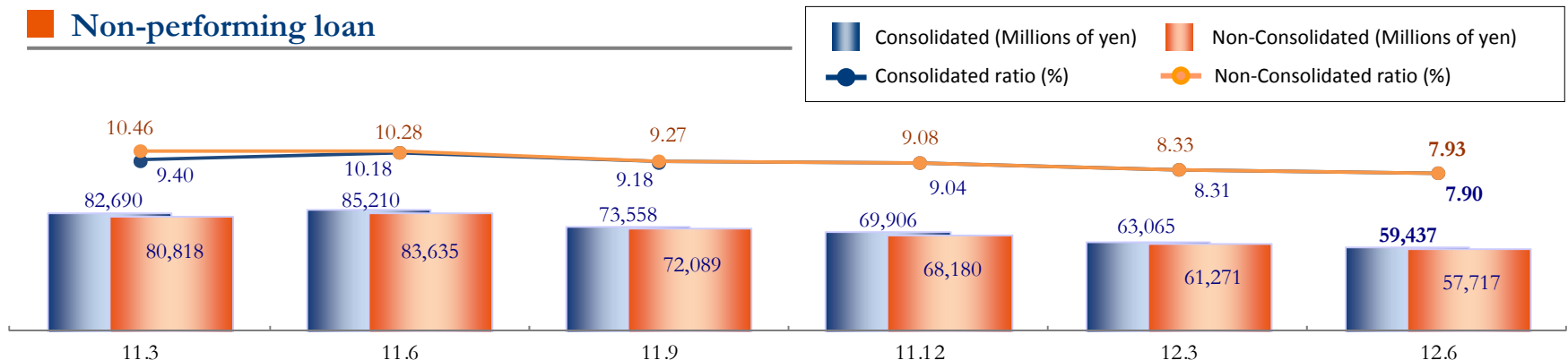
### 3. Business strategy: (1) Financing business

- Consolidated loan losses decreased by 10.8 billion yen from the previous fiscal year, as a result of an improvement in credit quality and a decline in credit losses.
- Consolidated non-performing loan ratio declined to 7.90% on Jun. 2012; a drop of 0.41 percentage points from Mar. 2012.

#### Allowance for loan losses

(Millions of yen)	Consolidated			Non-Consolidated		
	2011.6	2012.6	Differences	2011.6	2012.6	Differences
Allowance at end of the previous fiscal year	175,315	153,157	(22,158)	167,015	143,637	(23,378)
Loan losses	25,648	14,770	(10,878)	26,346	14,085	(12,261)
Accrued normally	18,645	9,601	(9,044)	19,342	8,916	(10,426)
Appropriation to principal	7,003	5,168	(1,835)	7,003	5,168	(1,835)
Provisions (operating expenses)	19,095	6,441	(12,654)	18,471	5,150	(13,321)
Other	(391)	931	1,322	4,246	972	(3,274)
Allowance at end of the year	168,370	145,760	(22,610)	163,387	135,675	(27,712)

#### Non-performing loan

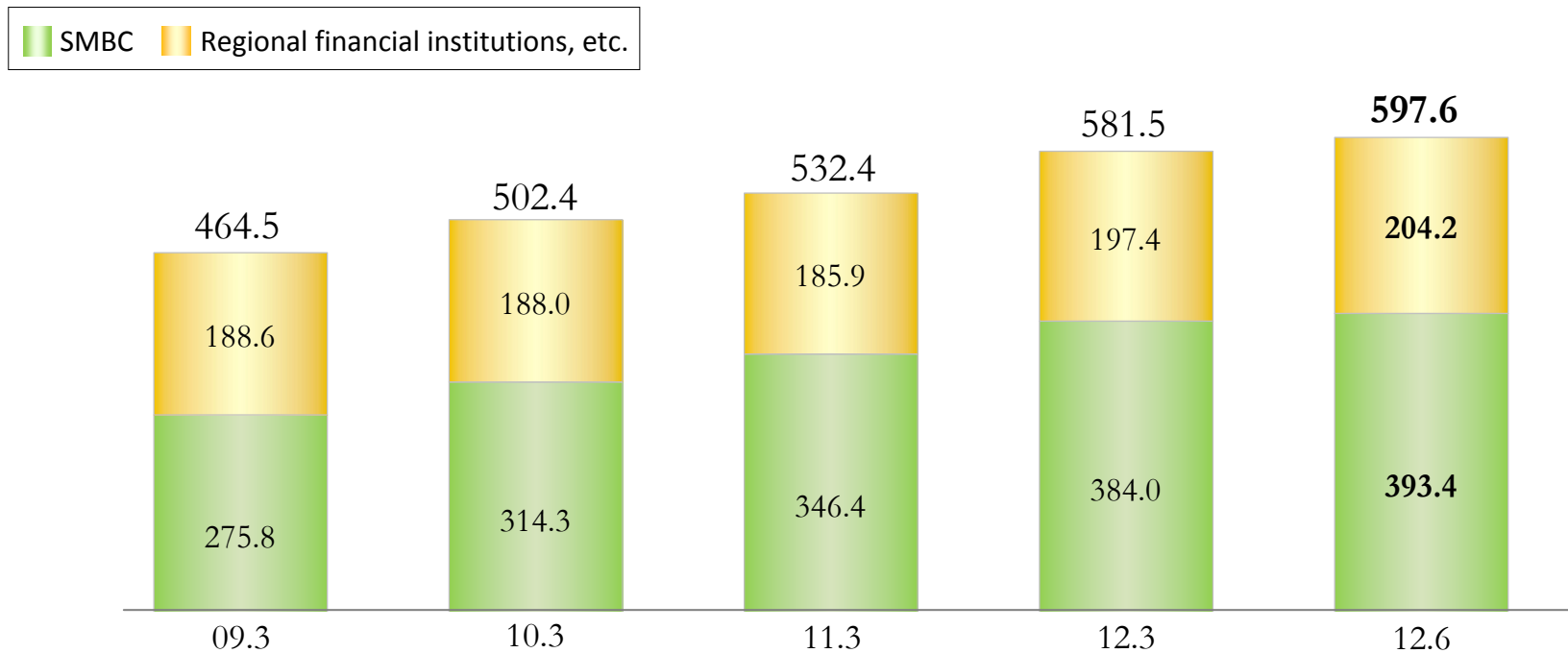


### 3. Business strategy: (2) Loan guarantee business

- Guaranteed loans outstanding for consumer loans under contracts with SMBC and regional financial institutions, etc. was 597.6 billion yen on Jun. 2012, a 16.1 billion yen increase from Mar. 2012.

#### Guaranteed loans outstanding (Billions of yen)

[ Number of guarantee agreements: 183 ]

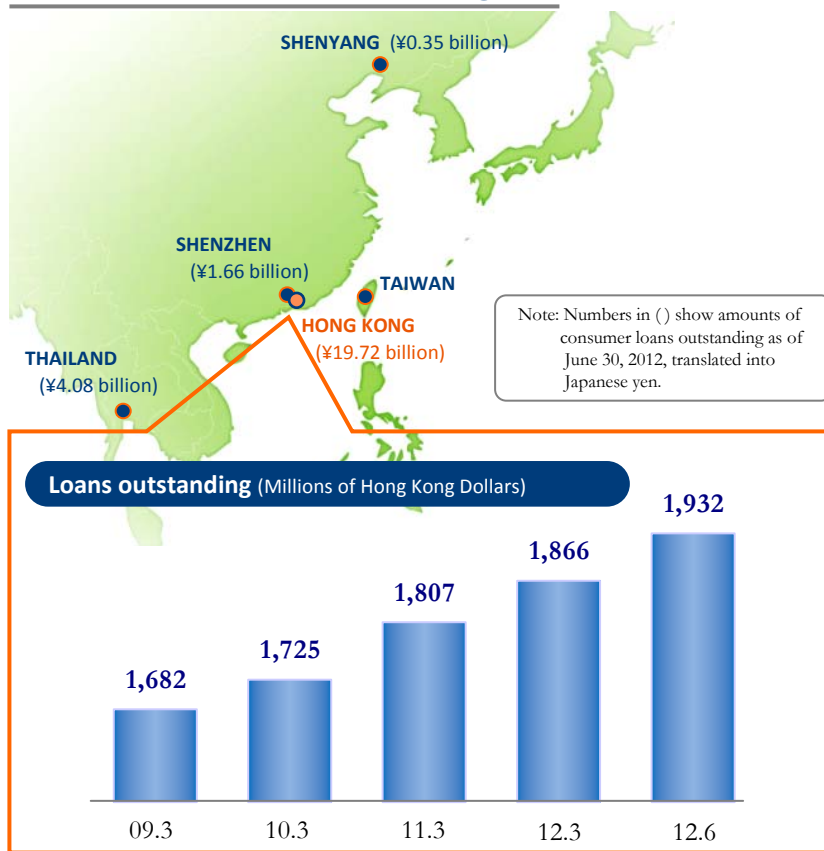




# 3. Business strategy: (3) Overseas business

Consumer loans outstanding showed strong growth in Hong Kong. Business is also expanding smoothly in mainland China; Shenzhen and Shenyang.

## Overseas loans outstanding



## Promise (Hong Kong) 's financial performance\*

(Billions of yen)

	FY3/11	FY3/12 (15-mos. period)	1Q, FY3/13
Operating income	7.4	8.9	1.8
Ordinary profit	4.2	5.2	1.0
Net income	3.4	4.3	0.8

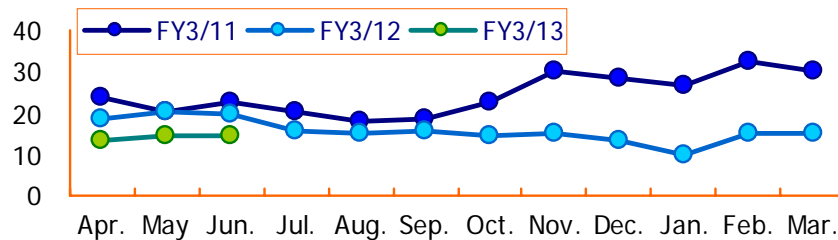
\* Figures before consolidation adjustments. Local currencies converted into JPY. FY3/12 was an irregular 15-months period due to a change in fiscal year-end

# 4. Interest refunds

- Number of interest refund claims and transaction-record disclosure requests has been flat in recent months but below the level of the previous fiscal year.
- Although interest refunds on a cash out basis were high, the balance of the allowance for losses on interest refunds was sufficient at 285.5 billion yen as of June 30, 2012.

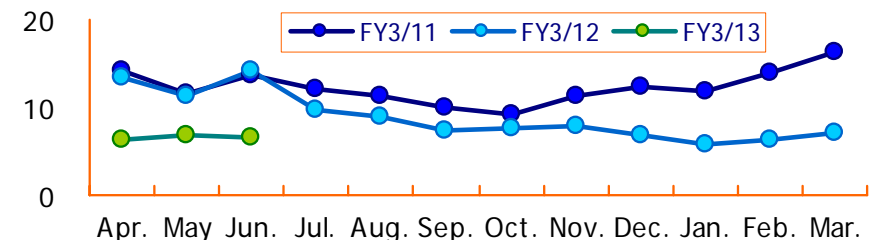
## Interest refunds

Number of transaction-record disclosure requests (Thousands)



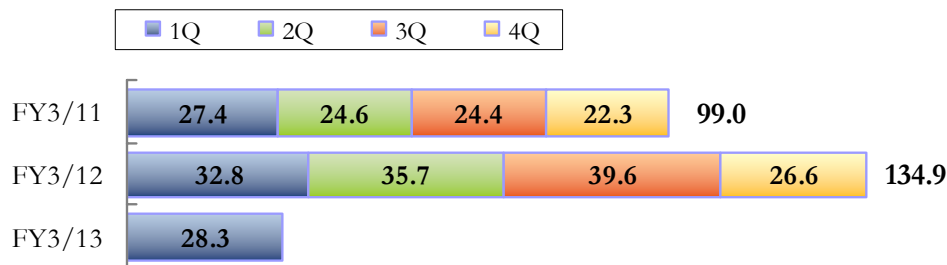
FY3/11	23.8	20.3	22.7	20.3	18.0	18.6	22.4	29.9	28.2	26.6	32.2	30.2
FY3/12	18.3	20.2	19.6	15.6	15.3	15.7	14.7	14.8	13.6	10.0	15.3	15.2
FY3/13	13.3	14.6	14.7									

Number of interest refund claims (Thousands)

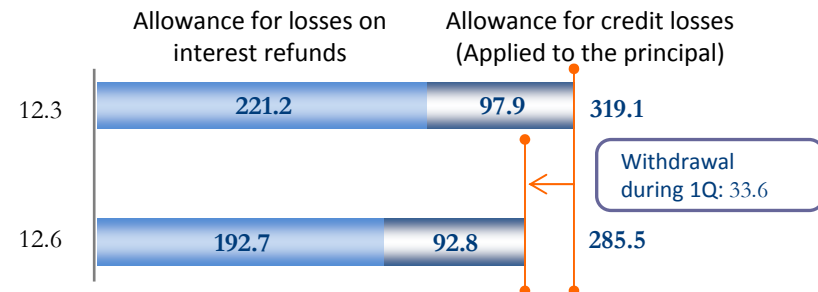


FY3/11	14.2	11.6	13.8	12.0	11.4	9.9	9.3	11.2	12.3	11.8	14.0	16.4
FY3/12	13.3	11.2	14.3	9.7	8.9	7.3	7.7	7.8	6.8	5.9	6.4	7.0
FY3/13	6.3	6.8	6.7									

Cash out basis (Billions of yen)



Allowance for losses on interest refunds (Billions of yen)



## 5. Financial highlights: 1Q, FY3/13

- Consolidated operating income was 46.9 billion yen because loan guarantee revenues were strong, while interest on consumer loans declined.
- Consolidated net income rose to 21.3 billion yen due mainly to a sharp decline in credit cost.

### Operating income (loss)

(Millions of yen / %)	Consolidated	YoY change		Non-Consolidated	YoY change	
		Amount	%		Amount	%
Consumer loans outstanding	752,241	(85,012)	(10.2)	728,072	(85,619)	(10.5)
<b>Operating income</b>	<b>46,918</b>	<b>(3,494)</b>	<b>(6.9)</b>	<b>41,286</b>	<b>(3,932)</b>	<b>(8.7)</b>
Interest on consumer loans	31,619	(4,551)	(12.6)	29,665	(4,808)	(13.9)
Loan guarantee revenues	8,668	615	7.6	8,668	615	7.6
Others	6,630	441	7.1	2,953	260	9.7
<b>Operating expenses</b>	<b>25,503</b>	<b>(21,993)</b>	<b>(46.3)</b>	<b>22,076</b>	<b>(22,991)</b>	<b>(51.0)</b>
Expenses for loan losses	6,441	(12,661)	(66.3)	5,150	(13,328)	(72.1)
Expenses for interest repayments	18	(9,639)	(99.8)	18	(9,640)	(99.8)
Expenses for debt guarantees	449	371	480.2	449	371	480.2
Others	18,595	(64)	(0.3)	16,458	(394)	(2.3)
<b>Operating profit</b>	<b>21,414</b>	<b>18,499</b>	<b>634.6</b>	<b>19,210</b>	<b>19,058</b>	<b>—</b>
<b>Recurring profit</b>	<b>21,970</b>	<b>18,387</b>	<b>513.2</b>	<b>19,191</b>	<b>18,515</b>	<b>—</b>
Extraordinary income	—	(1,337)	—	—	(9,214)	—
Extraordinary loss	123	87	247.8	123	97	370.1
<b>Income before income taxes</b>	<b>21,847</b>	<b>16,961</b>	<b>347.2</b>	<b>19,067</b>	<b>9,204</b>	<b>93.3</b>
Tax expenses (including deferred tax expense)	524	(329)	(38.6)	10	0	4.2
<b>Net income</b>	<b>21,322</b>	<b>17,291</b>	<b>429.0</b>	<b>19,057</b>	<b>9,203</b>	<b>93.4</b>

## 5. Financial highlights: FY3/12

### Operating income (loss)

(Millions of yen / %)	Consolidated	YoY change		Non-Consolidated	YoY change	
		Amount	%		Amount	%
<b>Consumer loans outstanding</b>	759,349	(120,247)	(13.7)	735,504	(37,089)	(4.8)
<b>Operating income</b>	196,170	(42,256)	(17.7)	172,291	(15,255)	(8.1)
Interest on consumer loans	137,936	(42,486)	(23.5)	129,051	(12,064)	(8.5)
Loan guarantee revenues	32,824	1,595	5.1	32,824	(2,716)	(7.6)
Others	25,410	(1,365)	(5.1)	10,416	(473)	(4.3)
<b>Operating expenses</b>	352,801	63,212	21.8	338,983	97,279	40.2
Expenses for loan losses	74,614	(27,201)	(26.7)	69,829	(18,016)	(20.5)
Expenses for interest repayments	193,840	113,443	141.1	193,840	123,768	176.6
Expenses for debt guarantees	8,142	(3,270)	(28.7)	8,142	(3,913)	(32.5)
Others	76,203	(19,759)	(20.6)	67,170	(4,559)	(6.4)
<b>Operating profit</b>	-156,630	(105,469)	—	-166,691	(112,534)	—
<b>Recurring profit</b>	-155,451	(106,639)	—	-167,012	(116,327)	—
Extraordinary income	4,048	(29,235)	(87.7)	9,384	(23,750)	(71.7)
Extraordinary loss	14,910	(61,684)	(80.5)	12,023	(74,775)	(86.1)
<b>Income before income taxes</b>	-166,276	(74,190)	—	-169,651	(65,302)	—
<b>Net income</b>	-169,557	(73,546)	—	-169,690	(65,282)	—

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

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