A full-page photograph of two men in business suits standing in a modern building hallway. The man on the left is Koichi Miyata, and the man on the right is Takeshi Kunibe. They are both wearing dark suits, white shirts, and ties. The background shows a large window and a modern interior design.

# To our stakeholders

**Koichi Miyata**

President  
Sumitomo Mitsui  
Financial Group, Inc.

**Takeshi Kunibe**

President and CEO  
Sumitomo Mitsui  
Banking Corporation

**We will become a global financial group that,  
by earning the highest trust of our customers,  
leads the growth of Japan and the Asian region**

We sincerely thank you for your continued support and patronage. The 2016 Annual Report summarizes our initiatives aimed at increasing corporate value, together with financial and non-financial information. We would like to explain about (a) the progress of the medium-term management plan and the financial results of fiscal 2015 (fiscal year ended March 2016), (b) the current business environment, (c) our management policy going forward and, (d) delivering value to stakeholders.

## Progress of the medium-term management plan and financial results of fiscal 2015

As part of the current medium-term management plan (from fiscal 2014 to 2016), Sumitomo Mitsui Financial Group, Inc. (SMFG) and Sumitomo Mitsui Banking Corporation (SMBC) set four three-year management goals in order to realize our vision for the next decade: “We will become a global financial group that, by earning the highest trust of our customers, leads the growth of Japan and Asian region”. While we are making solid progress in many areas, adjustments need to be made in some areas due to changes in the business environment.

### Vision for the next decade

**We will become a global financial group that,  
by earning the highest trust of our customers,  
leads the growth of Japan and the Asian region**

We will become a truly  
Asia-centric institution

We will develop the best-in-class  
earnings base in Japan

We will realize true globalization and continue to evolve our business model



### Three-year management goals

- (1) Develop and evolve client-centric business models for main domestic and international businesses
- (2) Build a platform for realizing Asia-centric operations and capture growth opportunities
- (3) Realize sustainable growth of top-line profit while maintaining soundness and profitability
- (4) Upgrade corporate infrastructure to support next stage of growth



**“While we are making solid progress in many areas, adjustments need to be made in some areas due to changes in the business environment.”**

We will now go over the initiatives we have implemented in accordance with each of the three-year management goals.

### **(1) Develop and evolve client-centric business models for main domestic and international businesses**

First, as for developing and evolving client-centric business models, we have bolstered our capabilities as a group by strengthening collaboration and integration between our banking and securities businesses, domestic and international offices, and wholesale and retail operations to enhance our ability to meet our clients' needs which are becoming more diverse and sophisticated. In the international business, we are promoting cross-selling of products and services, such as securities and transaction-related services, to our clients and making efforts to improve the profitability and diversity of our portfolio by increasing high-profit assets.

These initiatives have led to an increase in (a) domestic loans, (b) individual clients' assets under management, and (c) profits from our overseas securities operations as well as securing margins in our international businesses, which have steadily enhanced SMFG's competitiveness.

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For more about BTPN, please see page 40.

### **(2) Build a platform for realizing Asia-centric operations and capture growth opportunities**

With the aim of realizing Asia-centric operations, we have strengthened our presence in Asia by opening new offices in the region and turning local banks such as the Bank of East Asia of Hong Kong and ACLEDA Bank of Cambodia into equity-method affiliates. In Indonesia, where we are aiming to create a new franchise in addition to our franchise in Japan, we are collaborating with PT Bank Tabungan Pensiunan Nasional (BTPN), a local bank and our equity-method affiliate, in the mobile banking business. We are making steady progress in becoming a leading financial group in Asia and establishing the reputation that we are the Asia experts.

### (3) Realize sustainable growth of top-line profit while maintaining soundness and profitability

While we made a good start in the first year of the medium-term management plan, growth in our top-line profit slowed down in fiscal 2015, the second year of the plan. The main reason behind the slowdown was the deterioration of market conditions, especially in the second half of the fiscal year; for example declining stock prices and the yen's appreciation. In addition, one-off factors such as provisions for losses on interest repayments at our consumer finance subsidiaries and an impairment loss on goodwill of investments in BTPN resulted in consolidated ordinary profit of ¥985.3 billion and consolidated net income<sup>\*1</sup> of ¥646.7 billion. We feel that the progress made against our financial targets, apart from financial soundness, were disappointing. As we will explain in more detail later on, we believe that it is important to place more focus on our bottom-line profit given the significant changes in our business environment since we developed the medium-term management plan.

<sup>\*1</sup> Profit attributable to owners of parent

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For more about financial review, please see page 68.

#### Progress on financial targets

		FY 3/15	FY 3/16	FY 3/17 Targets
<b>Growth</b>	Growth rate of Consolidated gross profit	+2.8%	<b>+0.2%<sup>*2</sup></b>	around+15% <sup>*2</sup>
<b>Profitability</b>	Consolidated ROE	11.2%	<b>8.9%</b>	around 10%
	Consolidated net income RORA	1.1%	<b>0.97%</b>	around 1%
	Consolidated overhead ratio	55.7%	<b>59.4%</b>	in the mid 50%
<b>Soundness</b>	Common Equity Tier 1 capital ratio <sup>*3</sup>	12.0%	<b>11.9%</b>	around 10%

<sup>\*2</sup> Consolidated gross profit increase in comparison with FY 3/14 figure

<sup>\*3</sup> Basel III fully-loaded basis. Based on the definition as of March 31, 2019

### (4) Upgrade corporate infrastructure to support the next stage of growth

We implemented various initiatives aimed at enhancing corporate governance and promoting diversity as part of our efforts to upgrade our corporate infrastructure. In May 2015 we established the “SMFG Corporate Governance Guideline”, which sets out SMFG’s principles and guidelines on corporate governance. We also increased the number of external board members in June 2015 with the aim of bringing more varied external perspectives into management. We believe that we have been able to establish a more effective corporate governance framework through these initiatives.

## To our stakeholders

In the promoting of diversity, we are continuously working to create an environment that enables women to actively participate in the workplace. For example, we established a “Diversity and Inclusion Committee” at SMBC chaired by the President and CEO to implement a variety of measures to support the career development of female employees. Such initiatives have led to solid results as the percentage of women in managerial positions increased from 10.5% as of March 31, 2014 to 15.7% as of March 31, 2016. We also introduced initiatives overseas to appoint locally hired officers to senior positions. The number of locally hired executive officers at SMBC has increased from two at the start of the medium-term management plan to seven as of June 30, 2016. We can confidently say that we have made steady progress in the diversification of human resources.

### Current business environment

When we turn our eyes to the current business environment, we see a lot of uncertainty in the global economy given the slowdown of emerging markets, including China, and resource exporting countries, in addition to the rise of geopolitical risks. Also, although maintaining a virtuous cycle, the Japanese economy lacks momentum due to the sluggish global economy and financial markets. Consequently, our business environment is becoming increasingly challenging. Moreover, we cannot ignore the tremendous pace at which IT is evolving. While the spread of IT in the finance industry has great potential to drastically improve client experience and reduce our costs, we must keep in mind that such trends may lead to intensifying competition between not only established industry players, but also with non-financial corporates.

Furthermore, we are seeing uncertainty in the regulatory environment surrounding financial institutions. An international regulatory framework, referred to as “Basel III”, was introduced in fiscal 2012 in response to the global financial crisis of 2008 to 2009. There are now ongoing discussions on further tightening of regulations. While the regulations of financial institutions have a stabilizing affect on the financial system, introduction of excessive regulations may limit the financial intermediary function of such institutions. To this end, we will work with relevant authorities as well as other financial institutions, and voice our opinion when necessary.

On the other hand, “change” brings opportunity. For example, one of the major changes that occurred in fiscal 2015 was the Bank of Japan introducing the negative interest rate policy. Although it may take some time for the policy to show effects on the real economy, as long as we fully address our clients’ needs, the policy should act as a tailwind in the “shift from savings to investments”, as we will explain in more detail later.



## Our management policy going forward

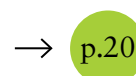
Next, we will explain our management policy from the following three perspectives: “Business strategy”, “Enhancing corporate governance and business management framework” and, “Capital policy”.

### Business strategy

Although the business environment has changed since we announced our medium-term management plan, the set of medium- to long-term assumptions such as a maturing domestic market with an aging population, the shift from savings to investments, growth in Asia, and technological innovation have not changed. Consequently, our visions for the future such as “becoming a truly Asia-centric institution” and “developing the best-in-class earnings base in Japan” also remain unchanged. However, taking into consideration the current changes in the economic and regulatory environments, we believe it is necessary to become more risk sensitive and to strengthen our focus on bottom-line profit, instead of aggressively pursuing top-line growth. We will prioritize our efforts on further solidifying our strengths – profitability and efficiency.

Specifically, we will work to expand non-interest income and secure margins both in our domestic and international businesses by continuing to focus on promoting collaboration and integrating operations within the group.

Some examples of our domestic initiatives are (a) providing appropriate consulting services and investment products to individual clients who are having difficulty in investing under the current negative interest rate environment and (b) increasing loans that provide solutions such as cross-border M&A finance to Japanese corporate clients whose operations are increasingly becoming more global. The objective of the merger between SMBC Nikko Securities and SMBC Friend Securities, and the consolidation of Sumitomo Mitsui Asset Management Company, both announced in May 2016, was to enhance our ability to respond to our clients’ needs.



For more about business strategy, please see page 20.

**“We will prioritize our efforts on further solidifying our strengths—profitability and efficiency.”**



## To our stakeholders

In regards to our international business, our overall policy is to expand cross-selling to non-Japanese clients and improve the profitability of our asset portfolio, while paying close attention to credit and foreign currency liquidity risks given the current business environment. As for the Asia region, we will set priorities and allocate resources to capture Asia's growth over the medium to long term as well as globally enhance the services we offer to our global clients by leveraging our strengths in the region.

We will also make efforts to reduce expenses. In addition to our on-going efforts to control expenses on a group basis, we established a group-wide expense reduction committee this fiscal year to thoroughly review our medium- to long-term expense structure. We will review and eliminate redundant operations and functions in areas such as administration, systems, personnel and Corporate Real Estate (CRE) within the group. We will also share business infrastructure and further prioritize strategic areas.

With regard to IT, we engaged in various new initiatives including the introduction of electronic loan contracts and the establishment of a joint venture with GMO Payment Gateway, a major E-Commerce payment services company. Moving forward, under the open innovation concept, we will continue to proactively utilize both internal and external expertise and resources, including forming cross-industrial alliances, so that we can provide cutting-edge services that address our clients' changing needs in a timely manner. We believe that amendments to Japan's Banking Act enacted in the Diet this year, which included provisions facilitating investments in FinTech companies by financial groups, will also boost SMFG's initiatives.

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For more about corporate governance, please see page 48.

### Enhancing corporate governance and business management framework

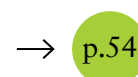
The year 2015 is said to be year one for corporate governance in Japan. In June 2015, "Japan's Corporate Governance Code" formulated by The Tokyo Stock Exchange became effective. We believe that robust corporate governance and business management framework play an extremely important role in increasing corporate value in the medium to long term. We will continue to make every effort to enhance these two areas.

In order to further enhance our corporate governance framework, SMFG announced in May 2016 the transformation into a Company with Three Committees, subject to approval by its ordinary general meeting of shareholders scheduled in June 2017. While we already had been working to establish a robust corporate governance framework, we believe that this change will improve accountability towards our stakeholders, strengthen the supervisory function of the Board of Directors, and further expedite the execution of operations. We will continue our efforts to reinforce corporate governance as one of the Global Systemically Important Financial Institutions ("G-SIFIs").

In addition, we announced (a) the implementation of a CxO<sup>\*4</sup> system in which the CxO will oversee the respective planning and administrative functions of the group and (b) the setting up of group-wide business units, both of which will be introduced in April 2017. The objective is to implement an integrated business management framework, strategy planning and business promotion on a group-wide basis. We will strive to enhance the profitability and efficiency of our group by establishing a framework that is both highly effective and enables us to fully address our clients' needs.

Moreover, we have implemented the Risk Appetite Framework (“RAF”) in order to secure an appropriate risk-return profile. RAF is a framework used to control risk on a group-wide basis, based on the proper understanding of the current business environment, by clarifying the category and quantity of risk (“risk appetite”) that will be taken to achieve profit growth, and managing these risk through the application of certain measures (risk appetite measures). RAF is becoming increasingly important amid the rapidly changing business environment and we will strive to achieve sustainable growth by continuously upgrading this framework.

\*4 General term for group chief officers such as Chief Financial Officer and Chief Risk Officer



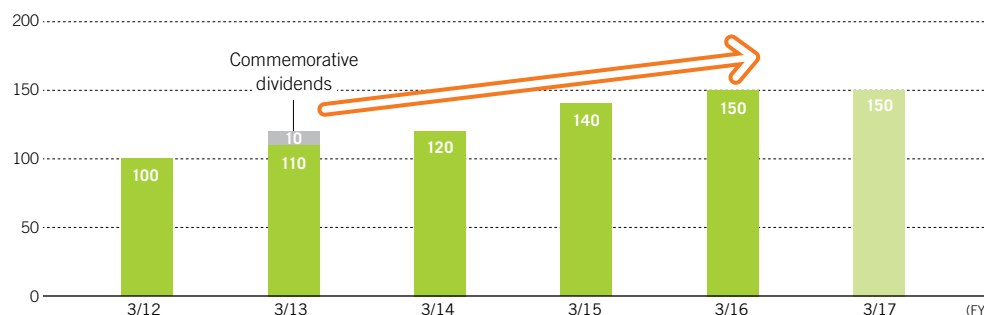
For more about risk management initiatives, please see page 54.

## Capital policy

Capital policy is an important factor that affects corporate value. As mentioned earlier, regulatory authorities are undertaking an ongoing review of international financial regulations which may affect the adequacy of financial institutions’ capital; however, the impact of such discussions is still unclear. Under such circumstances, we will continue to pay close attention to regulatory trends and implement a capital policy that strikes an appropriate balance between investments in growth opportunities, return to shareholders, and capital accumulation while working to secure financial soundness so that we can fulfill our role in society. We will strengthen shareholder returns by aiming to increase the dividend per share in a stable manner. For the fiscal year ending March 31, 2017, our dividend payout ratio forecast is 30.2% based on our earnings and dividend targets. We have stated that we are targeting a dividend payout ratio of 30% in the medium to long term, and we are honoring our commitment to our shareholders.

## Dividend per share

(JPY)





## To our stakeholders

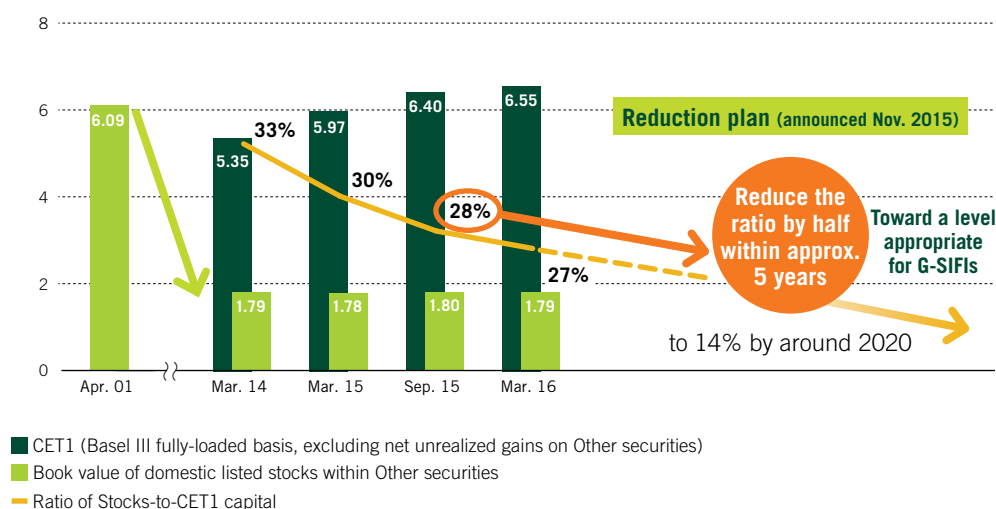
From the standpoint of strengthening our capital base and corporate governance, we also view the reduction of strategic shareholdings as a key management issue. We will continue our efforts to reduce strategic shareholdings to a level appropriate for a G-SIFI in order to mitigate the impact of stock price fluctuations on our capital. As a first step, we aim to have the assurance of reducing the Ratio of Stocks<sup>\*5</sup>-to-CET1 capital<sup>\*6</sup> from 28% at the end of September 2015 to 14% within approximately five years. We will also annually examine the rationale of individual strategic shareholdings for our major counterparties at the Board of Directors meeting. We feel that our clients are becoming more open to giving us consent on selling their shares as a result of the introduction and spread of the corporate governance code in Japan.

<sup>\*5</sup> Domestic listed stocks held by the group

<sup>\*6</sup> Basel III fully-loaded basis, excluding net unrealized gains on Other securities

### Transition and reduction plan of strategic shareholdings (SMFG consolidated basis)

(JPY tn)



## Delivering value to stakeholders

To achieve sustainable growth of our corporate value, it is important to deliver value not only to shareholders but also to various stakeholders including clients, society, and employees.

“Our Mission” states, “We grow and prosper together with our customers, by providing services of greater value to them.” We also set forth “Customer First” as the first of the “Five Values” which are shared among our employees. Using such values as a basis, we will consistently and sincerely work with our clients to address their various needs. In March 2016, we announced “Our commitment to fiduciary duties” that describes our client oriented approach in our wealth management business. In accordance with this announcement, we will strive to further improve the quality of our services.

Moreover, contributing to the sustainable growth of society is an essential mission for us. As for our Corporate Social Responsibility (CSR) initiatives, we have identified three priority themes, “Environment,” “Next Generation”, and “Community”, that we need to address.

Based on the themes, we have implemented various initiatives such as using financial services to address global environmental issues and contributing to the development of a safe community in which the next generation can play an active part vigorously. In fiscal 2015, our eight major group companies obtained or renewed the ISO 14001 environmental certification and SMBC issued a green bond, which limits the use of funds to environmentally friendly projects. Furthermore, we are engaging in financial and economic education initiatives in response to the increasing needs of society for such education, and also playing an active part in supporting rebuilding efforts following the Great East Japan Earthquake and Kumamoto Earthquake. These efforts are made on a group-wide basis.

From the standpoint of delivering value to employees, it is important to create a work environment in which a diversified workforce can fully demonstrate their characteristics and skills. This will lead to the enhancement of our competitiveness. In addition to implementing various measures supporting women's career development, we announced numerical targets and action plans regarding the appointing of women to managerial positions in response to the Act to Advance Women's Success in their Working Life. We have also implemented initiatives to support the balancing of work with caring for elder parents, the reduction of excessive working hours, and the introduction of flexible working hours. We will continue to make every effort to ensure that such initiatives are maintained and strengthened.

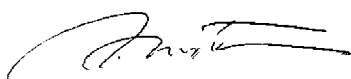
## In closing

Japan is now facing a crucial moment of whether it will be able to exit from its long-lasting deflation and return to sustainable growth. We believe it is our mission to support Japan revitalize its economy and beat deflation by supporting the growth of our clients and their innovation related initiatives by actively responding to changes in the business environment and firmly carrying out our responsibilities as a financial intermediary. Furthermore, we are supporting the Tokyo 2020 Olympic and Paralympic Games as a Gold Partner in the Banking category. We are further strengthening our will to "create a new Japan with you" before the upcoming nationwide major event.

We will make every effort to create value for all our stakeholders while ensuring that the "Five Values" (Customer First, Proactive and Innovative, Speed, Quality, Team SMBC / SMFG) are shared by all SMFG members. We hope that we can earn your continued understanding and support.

August 2016

**Koichi Miyata**  
President  
Sumitomo Mitsui Financial Group, Inc.



**Takeshi Kunibe**  
President and CEO  
Sumitomo Mitsui Banking Corporation



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For more about CSR,  
please see page 64.

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For more about human  
resources strategy,  
please see page 62.