

Message from the Group CEO



Takeshi Kunibe

Director President and Group CEO

Sumitomo Mitsui Financial Group, Inc.

SMFG's on-the-ground capabilities, spirit of innovation, and speed are the key characteristics of our corporate DNA. By further evolving these characteristics, we will become a top tier global financial group.

We extend our sincerest appreciation to our stakeholders for the continued support and patronage. In April 2017, SMFG launched “SMFG Next Stage,” its new three-year Medium-Term Management Plan under a new group-wide operational structure. As Group CEO, I would like to take this opportunity to share with you my thoughts and expectations in regards to the plan.

Introduction

The challenging business environment for financial institutions is expected to continue with the Bank of Japan’s negative interest rate policy and the implementation of tighter international financial regulations. From a political perspective, protectionism tendencies in some countries and geopolitical risks are also likely to add to the climate of uncertainty.

When we turn our eyes to Japan, we expect to see retail customers shifting from cash savings to asset building and adopting digital/cashless solutions, and corporate customers accelerating their overseas expansion. Globally, we anticipate the comprehensive reorganization of industries along with a rise in infrastructure investment in Asia.

It was against this backdrop that we launched “SMFG Next Stage,” our new Medium-Term Management Plan, in April 2017. It was also at this time that we undertook a comprehensive overhaul of SMFG’s corporate governance system coupled with structural reforms. SMFG was transformed into a Company with Three Committees, and introduced Group-wide business units and the CxO system. With these changes, we entered into the next stage of realizing our mid- to long-term vision: “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.”

I have had the privilege of being appointed Group CEO under this new structure, and I view my new responsibilities with both great dedication and pride. I stand firmly committed to meeting the expectations of our stakeholders by uniting the collective strengths of the Group, and forging ahead with structural reforms so that we may realize sustainable growth and further increase corporate value.

Review of the Previous Medium-Term Management Plan (Fiscal 2014–2016)

Before discussing “SMFG Next Stage,” I would like to go over the previous three-year Medium-Term Management Plan, which represented the first stage of our efforts to realize our mid- to long-term vision.

Under the previous Medium-Term Management Plan, we sought to develop and evolve client-centric business models for our main domestic and international businesses, and build a platform for realizing Asia-centric operations and capture growth opportunities. We were able to achieve solid success in these efforts. We also steadily accumulated profits, and were thus able to meet our target Common Equity Tier 1 capital ratio.

On the other hand, in terms of profit, the business environment proved to be more difficult than anticipated three years ago, due to factors such as the Bank of Japan’s negative interest rate policy and the slowdown of the Asian economy. As a result, growth in top-line profit proved to be sluggish. In response to changes in the business environment, we revised our strategy to focus on bottom-line profit partway through fiscal 2015, a move that entailed implementing stronger controls on expenses/costs. However, we were still unable to achieve our targets for (a) growth rate of consolidated gross profit and (b) consolidated overhead ratio, due in part to upfront investments in business model reform.

Message from the Group CEO

Steady progress in business strategy

Business model reform based on customer needs

- Retail AuM (three-year) +12%
- Average loan balance for Wholesale Banking Unit (three-year) +9%

Asia-centric strategy

- Expanded business with core Asian clients
- Increased synergies with investing companies, particularly in Indonesia

Evolving business model in international business

- Promoted cross-selling with core western clients
- Established high margin portfolio: e.g. acquisition of GE LBO business*

* Sumitomo Mitsui Finance and Leasing acquired the General Electric Group's Leasing Business in Japan on April 1, 2016.

Financial Targets

	Target	Fiscal 2016
CET1 capital ratio^{*1,2}	10%	12.2% (10.0%)
Consolidated net income RORA^{*1}	1%	1.0%
ROE	10%	9.1%
Consolidated gross profit growth rate^{*3}	+15% Excluding inorganic growth: +10%	+0.8%
Overhead ratio (OHR)	Mid-50%	62.1% (three-year: +7.9%)

*1 Figures are based on current RwA

*2 Figures in parentheses exclude net unrealized gains on other securities

*3 The consolidated gross profit growth rate represents the rate of change in comparison with fiscal 2013

New Medium-Term Management Plan (Fiscal 2017–2019) “SMFG Next Stage”

The new Medium-Term Management Plan, “SMFG Next Stage,” represents the second stage of our efforts to realize our mid-long term vision of becoming “a global financial group that, by earning the highest trust of our customers, leads the growth of Japan and the Asian region.” By combining the Group’s strengths with a more focused business management, we aim to be the financial institution of choice for our customers, to achieve sustainable growth and to enhance corporate value by providing value-added products and services.

Overview of Medium-Term Management Plan (Fiscal 2017–2019)



To achieve sustainable growth by combining the Group's strengths with more focused business management

- 1 Discipline** Disciplined business management
- 2 Focus** Focus on our strengths to generate growth
- 3 Integration** Integration across the Group and globally to achieve sustainable growth

Fiscal 2019 Financial Targets

Capital Efficiency	ROE	7–8%	Maintain at least 7% notwithstanding accumulation of capital
Cost Efficiency	OHR	1% reduction compared with fiscal 2016	Reduce to around 60% at the earliest opportunity (fiscal 2016: 62.1%)
Financial Soundness	CET1 ratio ^{1,2}	10%	Maintain capital in line with likely raised requirement ¹ (fiscal 2016: 8.3%)

→ **P.18**

For more about financial targets, please see page 18 and thereafter.

^{*1} Calculated with RwA inflated by 25% compared to the current level based on our assumption of the final impact of Basel III reforms

^{*2} CET1: excludes net unrealized gains on other securities

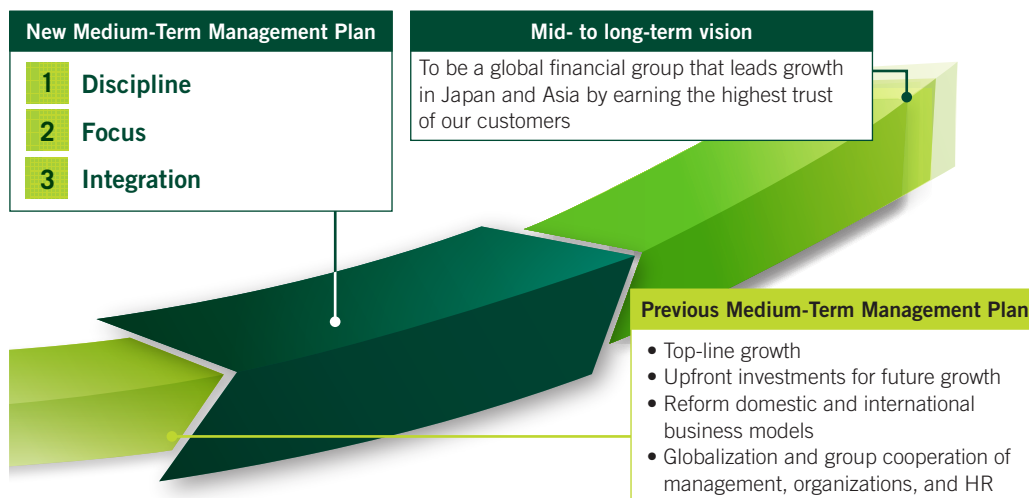
RwA: excludes RwA associated with net unrealized gains on stocks

Shareholder Return Policy

- Adopt a progressive dividend policy^{*3} targeting payout ratio of 40%
- Dividend per share forecast for fiscal 2017 is 160 yen, a 10 yen increase year on year
- Policy for share buybacks will be laid out after the finalization of Basel III reforms

^{*3} Progressive dividend policy means not to reduce dividends, and will maintain or increase dividends

Position of the new medium-term management plan



Message from the Group CEO

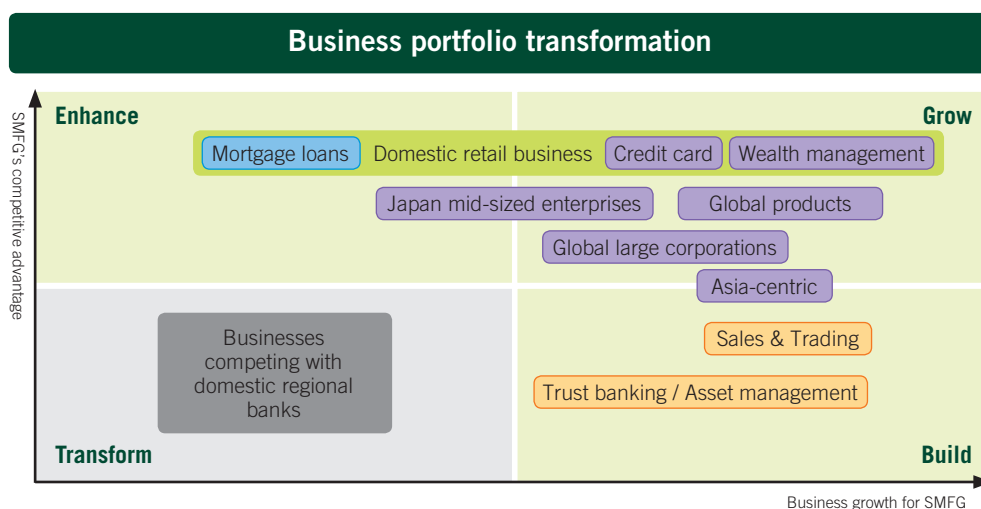
Based on the aforementioned uncertainties in the business environment, and the emergence of new global and domestic trends, “SMFG Next Stage” puts forth three core policies: Discipline, Focus, and Integration. The plan also calls for us to promote digitalization in all areas. I will now explain each of these core policies in depth.

Disciplined Business Management

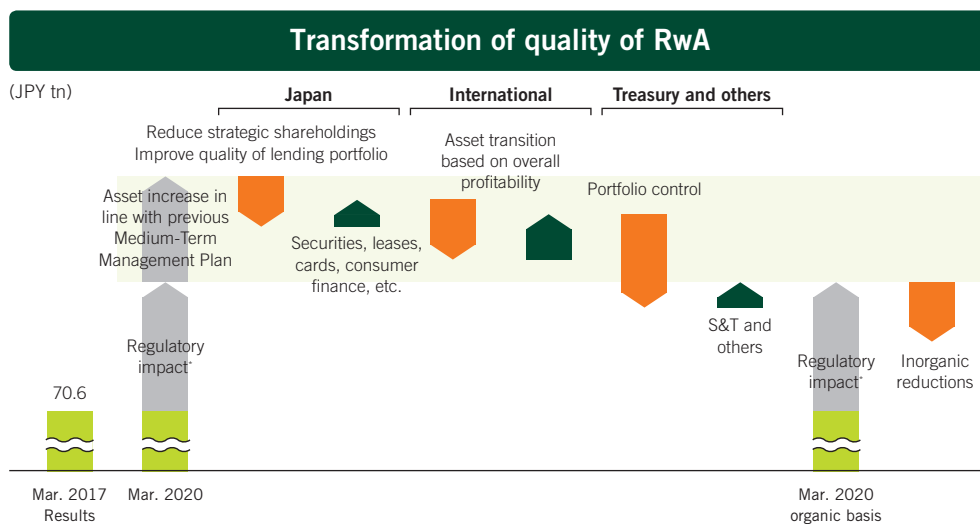
Transformation of Business/Asset Portfolios and the Quality of our Earnings Base

In order to realize sustainable growth in bottom-line profit and improve return on equity, we will bolster profitability by placing even greater emphasis on capital, asset, and cost efficiencies. At the same time, we will promote healthy risk taking and sound credit cost control. We will maximize returns through the optimized allocation of limited management resources by adopting a disciplined approach to management, investments, expenses/costs, and business operations.

When formulating the Medium-Term Management Plan, we first established two axes, the first being our competitive advantage in the respective business and the second being the business growth potential for us. We then divided this grid into four quadrants and reviewed the businesses in our portfolio based on the quadrants. The Seven Core Business Areas to which we would prioritize the allocation of resources were selected through this process. The upper-right “Grow” quadrant represents businesses with growth potential and in which SMFG has a competitive advantage. These businesses will be allocated resources as growth drivers. The upper-left “Enhance” quadrant houses businesses in which SMFG has a competitive advantage, but has limited growth potential. Resources will be allocated to these businesses in a suitable manner, and we will increase profitability by maximizing intra-Group synergies and enhancing efficiency on a group-wide basis. The “Build” quadrant on the lower-right indicates businesses to which SMFG was a late comer. We will be allocating resources to these businesses with the aim of realizing future growth by establishing highly distinctive business models. The lower-left “Transform” quadrant contains our domestic retail and wholesale businesses, in which our competitors are domestic regional banks and so are subject to domestic capital adequacy standards only. We will be revising the business models of the operations in this quadrant.



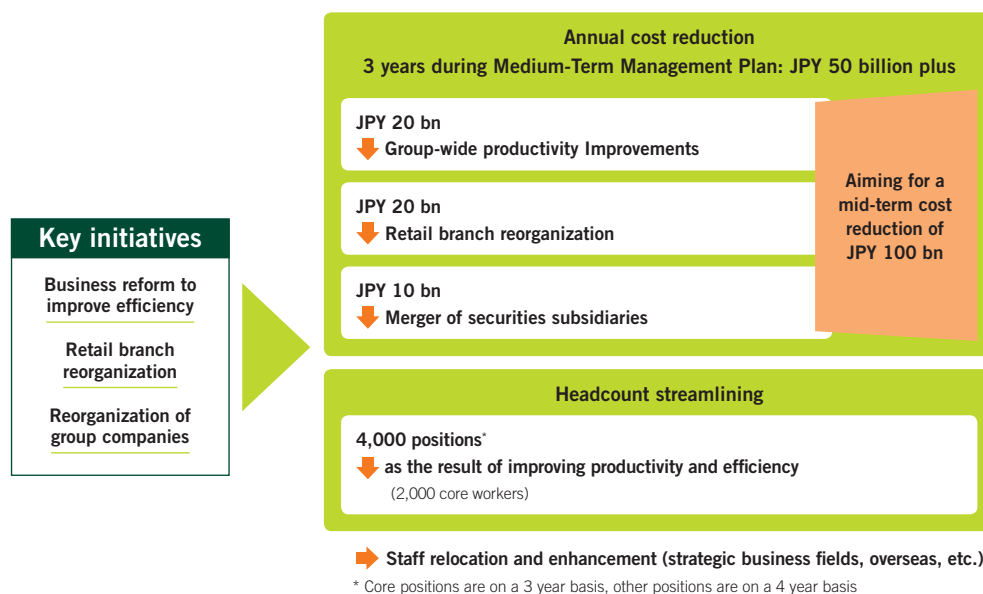
In regards to our asset portfolio, we will maintain the present volume of risk-weighted assets as calculated per current regulatory standards given the increase of such assets due to the application of more stringent international financial regulations. At the same time, we will improve profitability by rebalancing our asset portfolio to enhance the quality of our earnings base. We will keep risk-weighted assets at the same level on an organic basis. We will allocate resources to the Seven Core Business Areas, while at the same time reduce low-margin assets so that we may improve the overall quality of our portfolio. Furthermore, we will engage in the inorganic reduction of risk-weighted assets.



Improving Productivity and Efficiency

Meanwhile, we will boost productivity and the efficiency of operations by promoting digitalization, practicing the Group-based administration of operations, and reorganizing retail branches and Group businesses. Measures to curtail expenses such as the consolidation of Group companies' infrastructure will be implemented. We will also move ahead with the reorganization of retail branches to improve the productivity of our retail business. Furthermore, we aim to enhance efficiency by centralizing shared functions through the reorganization of Group businesses, including the integration of SMBC Nikko Securities and SMBC Friend Securities. We are targeting annual cost savings of ¥50 billion from these measures and ¥100 billion in the medium-term, along with the reduction effect of 4,000 positions. We will redeploy effected personnel to strategically important business areas in order to improve profitability while keeping labor costs under control.

Message from the Group CEO



Focus on Our Strengths to Generate Growth

Focus on Seven Core Business Areas

You can see in the diagram below our Seven Core Business Areas. We are already strong in the businesses in 1 through 5. We will further reinforce our domestic retail and wholesale businesses, where we have a competitive advantage and generate stable earnings. We will also selectively implement growth strategies that focus on SMFG's strengths in our overseas operations and global product lines. Businesses 6 and 7 are still small, but have significant growth potential. We will therefore seek to determine specific fields within these businesses in which we will step up activities to cultivate new strengths to drive future growth.

→ P.22

For more about business strategies, please see page 22 and thereafter.

Concept		Strategic Focus	
Enhance Enhance business base in domestic market	1	Hold the number one retail banking franchise in Japan	Digitalization
	2	Build on our lead position in the Japanese medium-sized enterprise market	
Grow Sustainable growth of US/EU businesses Make Asia our second mother market	3	Increase market share in Corporate & Investment Banking in key global markets	
	4	Establish a top-tier position in product lines where we are competitive globally	
	5	Accelerate our "Asia-centric" strategy	
Build Build our new strengths for future growth	6	Strengthen sales & trading capability	
	7	Develop asset-light businesses: trust banking and asset management	

Integration across the Group and Globally to Achieve Sustainable Growth

Management that Maximizes Business Potential

Under the newly introduced group-wide business units and CxO system, we will work to maximize the potential of our businesses on both a Group and global basis. Specifically, group-wide business units will facilitate the sharing of strategies among Group companies and enable us to improve our ability to provide products and services on a group-wide basis so that we may accurately respond to the diverse needs of our broad customer base. The CxO system, which established positions such as the Chief Strategy Officer, Chief Financial Officer, Chief Human Resources Officer, and Chief Information Officer, will allow for the sharing of management resources among Group companies, such as the active exchange of personnel, and will enable the optimal allocation of resources on a group-wide basis. At the same time, we will enhance Group-based planning and management functions to control investments in Human Resources (HR) and IT, in addition to carrying-out a digitalization strategy. As management controls, we implemented return on equity and risk appetite management on a business unit basis. We will also develop more sophisticated business management information systems.

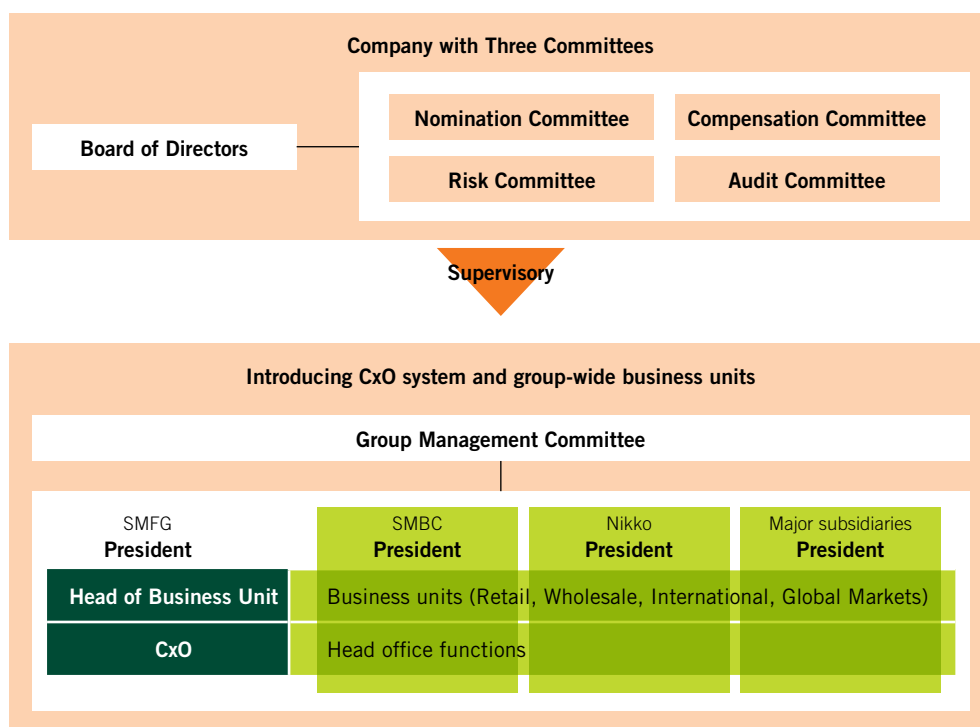
→ **P.46**

For more about corporate governance, please see page 46.

→ **P.52**

For more about risk appetite management, please see page 52.

SMFG's Corporate Governance Framework



(Reference) List of CXO titles		
CEO (Chief Executive Officer)	CFO (F: Financial)	CSO (S: Strategy)
CRO (R: Risk)	CCO (C: Compliance)	CHRO (HR: Human Resources)
CIO (I: Information)	CDIO (DI: Digital Innovation)	CAE (Chief Audit Executive)

Message from the Group CEO

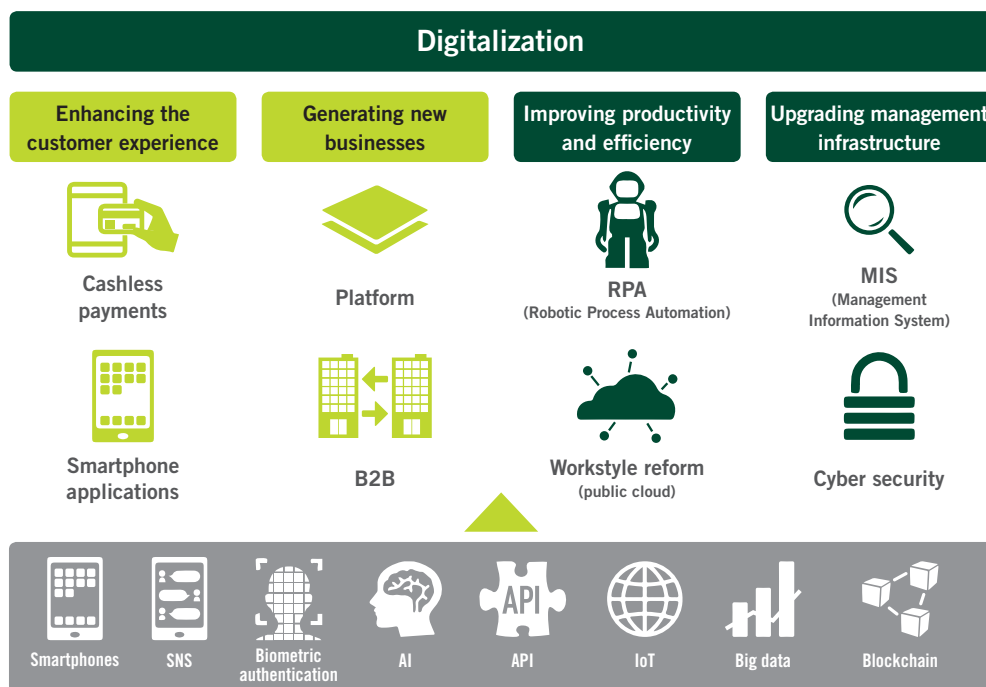
Digitalization

The digitalization of society is advancing at a rapid pace. Amid this trend, SMFG is actively adopting new technologies and promoting digitalization in various areas of its business so that we may enhance the customer experience, generate new businesses, improve productivity and efficiency, and upgrade management infrastructure.

Examples of our efforts on this front include the provision of cutting-edge services for retail and corporate customers that utilize digital technologies to enhance the customer experience, such as the introduction of paperless transactions. Furthermore, we will generate new businesses, for example by offering biometric authentication platforms as a “Platformer.” We will also introduce public cloud services and advance work style reform in order to boost productivity and efficiency. In addition, we will introduce state-of-the-art IT infrastructure so that we may accurately track business management data, based on which we will work to enhance management practices.

→ P.40

For more about digitalization, please see page 40.



Environment, Social, and Governance (ESG)

In June 2017, SMFG transitioned from a Company with a Board of Corporate Auditors to a Company with Three Committees. The purpose of this move was to establish a corporate governance system that is aligned with the standards required of a Global Systemically Important Financial Institution and to strengthen the supervisory function of the Board of Directors.

In addition, we revised the executive compensation systems of SMFG and Sumitomo Mitsui Banking Corporation to ensure that management is well aligned with the shareholder perspective. As part of this change, we introduced a stock-based compensation system that utilizes restricted stock. This new system will strengthen linkage of executive compensation with short-term and mid- to long-term performance, and thereby provide proper incentives to pursue heightened performance while encouraging executives to hold stock in the Company.

Furthermore, SMFG has identified the “Environment,” Next Generation,” and “Community” as priority issues to be addressed over the mid- to long-term from a Corporate Social Responsibility (CSR) perspective. Through ongoing initiatives revolving around these issues, we are contributing to the development of society. The promotion of diversity and inclusion is also a priority for management. We have been actively introducing initiatives to promote female participation in the workplace and stepped up hiring of local employees outside of Japan in line with the globalization of our business. Through such efforts we seek to develop an organization that provides ample opportunities for a diverse work force.

In Closing

The considerable changes we are seeing on a global scale are giving rise to an unparalleled paradigm shift. The new Medium-Term Management Plan, “SMFG Next Stage”, was forged in the midst of this upheaval. The timing of the plan’s establishment and our decision to tackle new challenges are symbolic of our commitment to responding to changing customer needs, by further uniting the strengths of the Group. It also represents our recognition of the fact that structural reforms are necessary to address the implementation of more stringent international financial regulations and transition to an earnings base with higher capital efficiency. I am confident that, when each individual member of the Group comes together and combines their respective strengths, we will be able to overcome any obstacle we may face.

We will, of course, continue to proactively adjust our internal systems and strategies in response to external changes. At the same time, however, we will always remain true to the transcendental values of the Company. Never losing sight of our core value - Customer First, we will exercise the on-the-ground capabilities, spirit of innovation, and speed that characterize SMFG’s corporate DNA while further evolving these key characteristics to become the financial institution of our customers’ choice. This approach will remain unchanged. My mission as Group CEO is to lead SMFG so that we may exceed the goals put forth in the new Medium-Term Management Plan and achieve sustainable growth in corporate value. We will accomplish this by becoming a top tier global financial group that pursues quality in every aspect of our business, is trusted by our customers and society, and has an unrivaled footprint in Asia.

I would like to ask for the continued understanding and support of all our stakeholders.

August 2017

Takeshi Kunibe

Director President and Group CEO
Sumitomo Mitsui Financial Group, Inc.



→ **P.62**

For more about CSR,
please see page 62.

→ **P.60**

For more about human resources,
please see page 60.

