Message from the Group CFO

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Group CFO
Director Deputy President and Executive Officer

Review of Fiscal 2016

In fiscal 2016, consolidated gross profit increased by ¥16.8 billion year-on-year, to ¥2,920.7 billion. Although we felt the adverse effects of the Bank of Japan's negative interest rate policy, we were able to offset this downward pressure on revenue with higher profits from SMBC Nikko Securities Inc., which benefited from an upturn in the markets.

General and administrative expenses were up by ¥87.6 billion year-on-year, to ¥1,812.4 billion, and total credit cost rose by ¥61.6 billion, to ¥164.4 billion. However, the absence of an one-off cost recorded in the previous fiscal year resulted in ordinary profit increasing by ¥20.6 billion, to ¥1,005.9 billion.

Profit attributable to owners of parent increased by ¥59.8 billion year-on-year, to ¥706.5 billion, due in part to the tax benefits associated with the implementation of the consolidated corporate-tax system in fiscal 2017.

For a detailed review of our business results and financials, please refer to page 66.

Financial Targets

Taking into consideration the current business environment, SMFG is working to improve capital, asset, and cost efficiencies in order to become a top tier financial group. We have thus established financial targets for return on equity (ROE), overhead ratio, and Common Equity Tier 1 capital ratio (CET1 ratio), to guide us in our efforts to improve profitability and secure financial soundness.

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%)

*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

Return on Equity

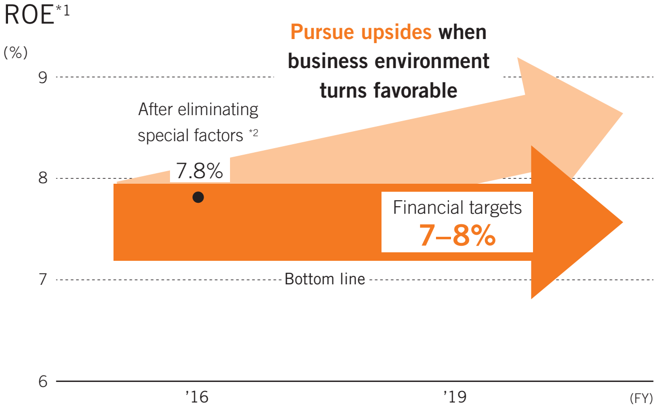
Our target ROE under the Medium-Term Management Plan is 7% to 8%, with 7% set as the minimum acceptable level. We were able to achieve an ROE in fiscal 2016 of 9.1%, or 7.8% after the exclusion of one-off increases to profit such as the implementation of the consolidated corporate-tax system. However, given the increase in risk-weighted assets resulting from the implementation of tighter international financial regulations, we recognize the necessity of accumulating capital. Furthermore, we estimate SMFG's bottom-line profit to be roughly ¥600 billion when extraordinary factors are excluded. Over the next three years, we expect further downward pressure to be placed on earnings. Factors generating this pressure include the reduced profitability of domestic loans due to the Bank of Japan continuing its negative interest rate policy, intensifying competition, and higher foreign currency funding costs. Nevertheless, we remain committed to overcoming such challenges and growing bottom-line profit by focusing on our core business areas and reforming cost structures.

We will not allow ourselves to be satisfied by merely reaching the target ROE of 7% to 8% given our pursuit of improvements in profitability and efficiency. Rather, we will ready ourselves to actively pursue upsides when business environment turns favorable, perhaps due to the exit of the Bank of Japan's negative interest rate policy or the relaxing of international financial regulations, to realize even higher levels of ROE.

Overhead Ratio

In fiscal 2019, SMFG aims to have decreased its overhead ratio by approximately 1% from the fiscal 2016 figure of 62.1%. Our overhead ratio rose during the previous Medium-Term Management Plan as we made upfront investments to pursue growth in top-line profit, while growth proved to be sluggish due to the slowdown of emerging market economies and the Bank of Japan's negative interest rate policy. We sought to remedy this situation by implementing stricter controls on expenses/costs midway through fiscal 2015, and we are seeing the benefits of these efforts. In fiscal 2017, our overhead ratio is expected to rise slightly due to an increase in revenue-linked variable costs stemming from growth in our securities and credit card businesses, as well as the amortization of past IT system investments. Nonetheless, we will work to reverse this upward trend at the earliest possible stage and establish its downward trend during the next three years by selectively making strategic investments in initiatives that develop businesses and improve productivity, for example the digitization of operations, while at the same time engaging in group-wide efforts to reduce costs by increasing the efficiency of our operations, and reorganizing retail branches and Group businesses. Following the implementation of such initiatives, the next step will be to reduce our overhead ratio to approximately 60% at the earliest possible date, in or after fiscal 2020.

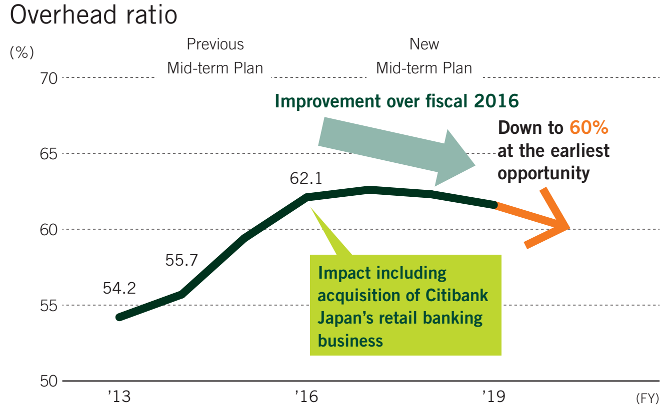
ROE*1



*1 On a stockholders' equity basis

*2 Excluding special factors, such as the effects of implementing the consolidated corporate-tax system

Overhead ratio



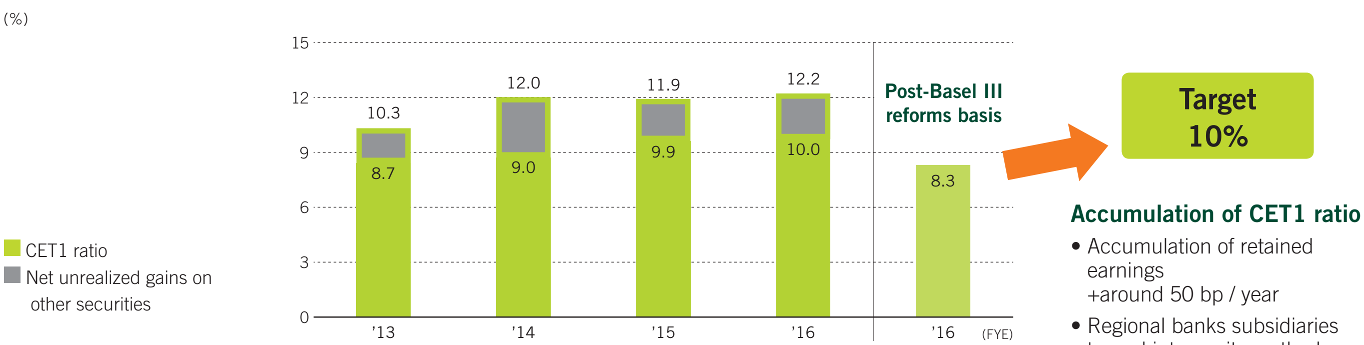
Message from the Group CFO

Common Equity Tier 1 Capital Ratio

The target CET1 ratio has been set at 10% based on the assumption that Basel III regulation will be finalized in fiscal 2020. This ratio is calculated by dividing Common Equity Tier 1 capital, less net unrealized gains on other securities, by risk-weighted assets, less risk-weighted assets associated with unrealized gains on stocks.

The finalization of Basel III reforms is expected to result in approximately a 25% increase in SMFG's risk-weighted assets from its current levels. Accordingly, we aim to secure a sufficient level of financial soundness one year prior to the enactment of finalized Basel III reforms, or, in other words, by the final year of the Medium-Term Management Plan. The CET1 ratio target of 10% was derived based on the results of internal stress tests so that we will still be able to maintain the required CET1 ratio of 8% even in a once in a decade stress event. Our CET1 ratio calculated as of March 31, 2017 based on Post-Basel III reforms basis was 8.3%. Going forward, we will seek to secure financial soundness by controlling risk-weighted assets, including the inorganic reduction of such assets, and by steadily accumulating profits.

CET1 ratio

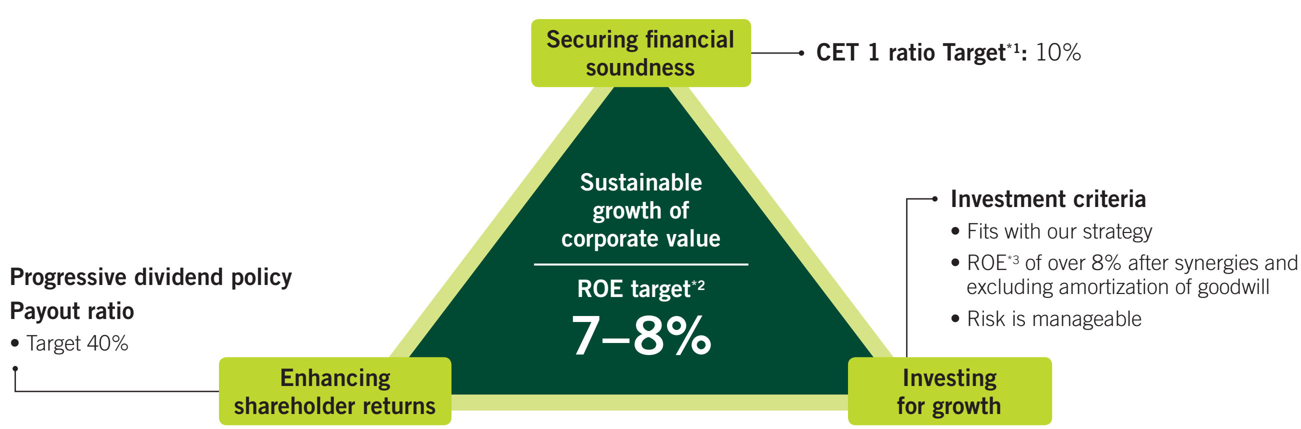


Risk-weighted assets (RWA) (JPY tn)	61.3	65.9	65.9	70.6	88.6

Capital Policy

I will now explain SMFG's capital policy.

Through our basic capital policy, we seek to realize sustainable growth in shareholder value by balancing "securing financial soundness," "enhancing shareholder returns," and "investing for growth."



*1 Calculated with RwA inflated by 25% compared to the current level based on our assumption of the final impact of Basel III reforms. CET1: excludes net unrealized gains on other securities. RwA: excludes RwA associated with gains on stocks CET1 ratio on a Basel III fully-loaded basis (including net unrealized gains on other securities), exceeds CET1 ratio post Basel III reforms basis by 4%

*2 On a stockholders' equity basis *3 Managerial accounting basis with RwA calculated assuming Basel III reforms are finalized

Securing Financial Soundness

As I mentioned earlier, we are targeting a CET1 ratio of approximately 10% based on the anticipated final impact of tightened international financial regulations. We expect to achieve the targeted figure through the disciplined reform of our business and asset portfolios by which we will maintain the present amount of risk-weighted assets as calculated per current regulatory standards, while at the same time we will rebalance our assets to a high margin portfolio and accumulate profits.

We will continue to reduce our strategic shareholdings to comply with Japan's Corporate Governance Code, in addition to mitigating the negative impact of stock price fluctuations on our capital and the application of tighter international financial regulations.

Enhancing Shareholder Returns

In order to enhance shareholder returns we have adopted a progressive dividend policy, by which I mean that there will be no reduction in dividends and will either maintain or increase dividends and will target a payout ratio of 40%. To date, we have continued to increase the dividend per share in a stable manner. Based on our understanding that we have established a business foundation that will allow us to consistently secure bottom-line profit of ¥600 billion; we have decided to further increase the distribution of profits to shareholders through dividends. Our first step will be to increase dividends for fiscal 2017 with a forecast of ¥160 per share, a ¥10 increase year-on-year.

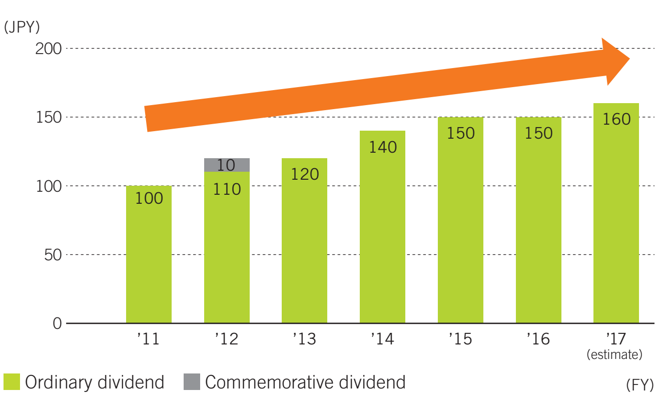
Our policy for share buybacks will be determined after the finalization of Basel III reforms.

Investing for Growth

We have set our investment criteria in line with the Core Policies of Discipline and Focus set out in the Medium-Term Management Plan. Specifically, (a) investments must be consistent with SMFG's strategies, (b) with an ROE of over 8% (after synergies and excluding amortization of goodwill), and (c) risk manageable.

We look forward to receiving your continued support as we will devote our utmost efforts to realize sustainable growth in shareholder value.

Dividends per share

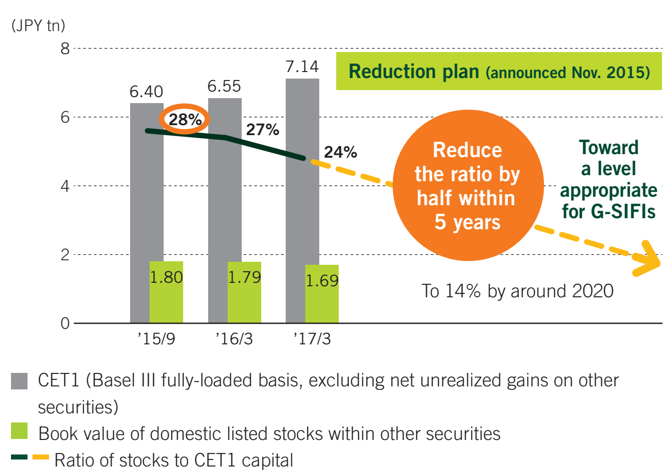


Payout ratio[*1]	26.8%	21.3%	20.3%	26.2%	32.7%	29.9%	35.8%[*2]

*1 Consolidated payout ratio

*2 Calculated based on fiscal 2017 consolidated net income forecast (¥630 billion) and dividend forecast (¥160 per share) and on the total number of issues shares on March 31, 2017

Strategic shareholdings and reduction plan (SMFG consolidated basis)



Reduction results for fiscal 2016	approx. JPY 100 bn
Consent of sales from clients (outstanding Mar. 2017)	approx. JPY 100 bn