

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report \_\_\_\_\_

Commission file number: 001-34919

**Kabushiki Kaisha Mitsui Sumitomo Financial Group**

(Exact name of Registrant as specified in its charter)

**SUMITOMO MITSUI FINANCIAL GROUP, INC.**

(Translation of registrant's name into English)

Japan  
(Jurisdiction of incorporation or organization)

1-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan  
(Address of principal executive offices)

Takeshi Mikami

1-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan

Telephone: +81-3-3282-8111 Facsimile: +81-3-4333-9954

(Name, telephone, e-mail and/or facsimile number and address of company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act

Title of Each Class

Name of Each Exchange on which registered

Common stock, without par value

The New York Stock Exchange\*

\* Not for trading, but only in connection with the listing of the American Depositary Shares, each American Depositary Share representing 1/5 of one share of the registrant's common stock.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

At March 31, 2017, the following shares of capital stock were outstanding: 1,414,055,625 shares of common stock (including 4,028,883 shares of common stock held by the registrant and its consolidated subsidiaries and equity-method associates as treasury stock).

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer  Non-accelerated Filer  Emerging Growth Company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act.

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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## **CERTAIN DEFINED TERMS, CONVENTIONS AND PRESENTATION OF FINANCIAL INFORMATION**

As used in this annual report, unless the context otherwise requires, “SMFG,” the “Company,” “we,” “us,” “our” and similar terms refer to Sumitomo Mitsui Financial Group, Inc. as well as to its subsidiaries, as the context requires. References to the “Group” are to us and our subsidiaries and affiliates taken as a whole. “SMBC” and “the Bank” refer to Sumitomo Mitsui Banking Corporation or to Sumitomo Mitsui Banking Corporation and its subsidiaries taken as a whole, depending on the context. The Bank is our main subsidiary.

In this annual report, all of our financial information is presented on a consolidated basis, unless we state otherwise. As used in this annual report, “IFRS” means International Financial Reporting Standards as issued by the International Accounting Standards Boards (“IASB”) and “Japanese GAAP” means accounting principles generally accepted in Japan. Our consolidated financial information in this annual report has been prepared in accordance with IFRS, except for the risk-weighted capital ratios, the segment results of operation and some other specifically identified information, which are prepared in accordance with Japanese banking regulations or Japanese GAAP. Unless otherwise stated or the context otherwise requires, all financial information contained in this annual report is expressed in Japanese yen.

Our fiscal year ends on March 31.

Unless otherwise specified or required by the context: references to “days” are to calendar days; references to “years” are to calendar years and to “fiscal years” are to our fiscal years ending on March 31; references to “\$,” “dollars” and “U.S. dollars” are to United States dollars; references to “euros” and “€” are to the currency of those member states of the European Union which are participating in the European Economic and Monetary Union pursuant to the Treaty on European Union; references to “£” and “British pounds sterling” are to the currency of the United Kingdom; and references to “yen” and “¥” are to Japanese yen. Unless otherwise specified, when converting currencies into yen we use our median exchange rates for buying and selling spot dollars, or other currencies, by telegraphic transfer against yen as determined at the end of the relevant fiscal period.

Unless otherwise indicated, in this annual report, where information is presented in millions, billions or trillions of yen or thousands, millions or billions of dollars, amounts of less than one thousand, one million, one billion or one trillion, as the case may be, have been rounded. Accordingly, the total of figures presented in columns or otherwise may not equal the total of the individual items. Except for capital ratios, which have been truncated, percentage data, unless we state otherwise have been subjected to rounding adjustments for the convenience of the reader.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains statements that constitute “forward-looking statements” within the meaning of Section 21E of the U.S. Securities Exchange Act of 1934, as amended (“Securities Exchange Act of 1934”). When included in this annual report, the words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “plan,” “probability,” “risk,” “project,” “should,” “seek,” “target,” “will” and similar expressions, among others, identify forward-looking statements. You can also identify forward-looking statements in the discussions of strategy, plans or intentions. Such statements, which include, but are not limited to, statements contained in “Item 3. Key Information—Risk Factors,” “Item 5. Operating and Financial Review and Prospects” and “Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk,” reflect our current views with respect to future events and are inherently subject to risks, uncertainties and assumptions, including the risk factors described in this annual report. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described here as anticipated, believed, estimated, expected or intended.

The U.S. Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking information to encourage companies to provide prospective information about themselves. We rely on this safe harbor in making these forward-looking statements.

Forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ from those in the forward-looking statements as a result of various factors, and the differences may be material. Potential risks and uncertainties include, without limitation, the following:

- deterioration of Japanese and global economic conditions and financial markets;
- declines in the value of our securities portfolio;
- changes in the level or volatility of market rates or prices;
- constraints on our operations due to capital adequacy requirements;
- problems of other financial institutions;
- adverse regulatory developments or changes in government policies;
- incurrence of significant credit-related costs;
- a significant downgrade of our credit ratings;
- exposure to new risks as we expand the scope of our business;
- our ability to successfully implement our business strategy through our subsidiaries, affiliates and alliance partners;
- the industry specific risks of the consumer finance industry;
- the recoverability of deferred tax assets;
- insufficient liquidity; and
- litigation and regulatory proceedings.

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 the filing of this annual report. We expressly disclaim any obligation to update or to announce publicly any revision to any of the forward-looking statements contained in this annual report to reflect any changes in events, conditions, circumstances or other developments upon which any such statement is based. The information contained in this annual report identifies important factors in addition to those referred to above that could cause differences in our actual results.

## PART I

### Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

### Item 2. Offer Statistics and Expected Timetable

Not applicable.

### Item 3. Key Information

#### 3.A. SELECTED FINANCIAL DATA

##### Selected Financial Data

The following selected financial data at and for each of the five fiscal years ended March 31, 2017, 2016, 2015, 2014 and 2013 have been derived from our consolidated financial statements. You should read this data together with “Item 5. Operating and Financial Review and Prospects” and our consolidated financial statements included elsewhere in this annual report.

	For the fiscal year ended and at March 31,				
	2017	2016	2015	2014	2013
	(In millions, except per share data)				
<b>Consolidated income statement data:</b>					
Interest income . . . . .	¥ 1,900,261	¥ 1,872,584	¥ 1,782,621	¥ 1,714,044	¥ 1,725,723
Interest expense . . . . .	502,338	431,101	371,107	320,511	321,570
Net interest income . . . . .	<u>1,397,923</u>	<u>1,441,483</u>	<u>1,411,514</u>	<u>1,393,533</u>	<u>1,404,153</u>
Fee and commission income . . . . .	1,066,412	1,031,680	1,002,766	1,003,169	948,685
Fee and commission expense . . . . .	181,573	131,381	129,253	127,959	127,054
Net fee and commission income . . . . .	<u>884,839</u>	<u>900,299</u>	<u>873,513</u>	<u>875,210</u>	<u>821,631</u>
Net trading income . . . . .	183,963	462,682	127,759	135,218	105,302
Net income from financial assets at fair value through profit or loss . . . . .	2,018	12,260	22,678	58,586	15,794
Net investment income . . . . .	305,327	375,229	371,064	332,265	223,404
Other income . . . . .	573,825	496,273	525,905	429,541	324,403
Total operating income . . . . .	<u>3,347,895</u>	<u>3,688,226</u>	<u>3,332,433</u>	<u>3,224,353</u>	<u>2,894,687</u>
Impairment charges (reversals) on financial assets . . . . .	212,967	148,356	90,138	(14,275)	270,145
Net operating income . . . . .	<u>3,134,928</u>	<u>3,539,870</u>	<u>3,242,295</u>	<u>3,238,628</u>	<u>2,624,542</u>
General and administrative expenses . . . . .	1,752,135	1,706,263	1,621,897	1,522,990	1,447,116
Other expenses . . . . .	531,759	538,963	505,614	428,780	287,896
Operating expenses . . . . .	<u>2,283,894</u>	<u>2,245,226</u>	<u>2,127,511</u>	<u>1,951,770</u>	<u>1,735,012</u>
Share of post-tax profit of associates and joint ventures . . . . .	29,318	31,056	18,124	19,454	19,593
Profit before tax . . . . .	<u>880,352</u>	<u>1,325,700</u>	<u>1,132,908</u>	<u>1,306,312</u>	<u>909,123</u>
Income tax expense . . . . .	139,766	372,878	409,947	414,076	255,300
Net profit . . . . .	<u>¥ 740,586</u>	<u>¥ 952,822</u>	<u>¥ 722,961</u>	<u>¥ 892,236</u>	<u>¥ 653,823</u>

For the fiscal year ended and at March 31,						
	2017	2016	2015	2014	2013	
(In millions, except per share data)						
Profit attributable to:						
Shareholders of Sumitomo Mitsui Financial Group, Inc. . . . .						
	¥	627,870	¥	843,920	¥	614,070
				¥	766,388	¥
						535,976
Non-controlling interests . . . . .						
		104,787		106,129		108,891
					125,848	117,847
Other equity instruments holders . . . . .						
		7,929		2,773		—
					—	—
Earnings per share:						
Basic . . . . .						
	¥	459	¥	617	¥	449
				¥	561	¥
						396
Diluted . . . . .						
		458		617		449
					561	395
Weighted average number of common shares in issue (in thousands of shares) . . . . .						
		1,369,231		1,367,229		1,367,258
					1,366,186	1,353,926
Dividends per share in respect of each fiscal year:						
Common stock . . . . .						
	¥	150	¥	155	¥	125
				¥	125	¥
						100
	\$	1.34	\$	1.38	\$	1.04
					\$	1.22
						1.06
<b>Consolidated statement of financial position data:</b>						
Total assets . . . . .						
	¥	191,150,981	¥	180,172,652	¥	179,181,466
				¥	158,631,041	¥
						147,770,475
Loans and advances . . . . .						
		95,273,845		88,862,371		86,971,716
					81,244,982	75,987,057
Total liabilities . . . . .						
		179,263,698		169,130,553		168,160,616
					149,215,851	139,210,786
Deposits . . . . .						
		130,295,290		125,940,797		115,833,980
					108,370,494	101,021,413
Borrowings . . . . .						
		12,245,943		9,914,129		11,217,052
					8,463,363	6,475,543
Debt securities in issue . . . . .						
		11,165,623		10,829,612		11,051,431
					8,769,094	7,950,020
Total equity . . . . .						
		11,887,283		11,042,099		11,020,850
					9,415,190	8,559,689
Capital stock . . . . .						
		2,337,896		2,337,896		2,337,896
					2,337,896	2,337,896

## Exchange Rates

We maintain our accounts in yen. The following table sets forth for the indicated periods the median exchange rates for buying and selling spot dollars by telegraphic transfer against yen as determined by the Bank, expressed in Japanese yen per \$1.00.

	<u>High</u>	<u>Low</u>	<u>Period end</u>	<u>Average<sup>(1)</sup></u>
	(Yen per dollar)			
<b>Fiscal year ended March 31,</b>				
2013 .....	¥ 96.45	¥ 77.57	¥ 94.01	¥ 83.31
2014 .....	105.37	92.91	102.88	100.47
2015 .....	121.59	101.25	120.15	110.61
2016 .....	125.51	111.17	112.62	120.12
2017 .....	118.20	99.81	112.19	108.69
Most recent six months:				
December .....	118.20	113.58	116.49	115.99
January .....	117.96	112.80	113.81	114.78
February .....	114.46	111.77	112.46	113.11
March .....	115.23	110.46	112.19	113.05
April .....	111.47	108.32	111.21	110.13
May .....	114.26	110.91	110.91	112.26
June (through June 15, 2017) .....	111.65	109.53	109.72	110.27

(1) Average exchange rates have been calculated by using the average of the exchange rates on the last day of each month during a fiscal year, except for the monthly average rates, which represent the averages of the exchange rates for each day of the relevant months.

The median exchange rate quotation by the Bank for buying and selling spot dollars by telegraphic transfer against yen on June 15, 2017 was ¥109.72 = \$1.00.

These exchange rates are reference rates and are neither necessarily the rates used to calculate ratios nor the rates used to convert dollars to yen in the consolidated financial statements included elsewhere in this annual report.

### 3.B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

### 3.C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

### 3.D. RISK FACTORS

*Investing in our securities involves risks. You should carefully consider the risks described below as well as all the other information in this annual report, including, but not limited to, our consolidated financial statements and related notes included elsewhere in this annual report and “Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk.” Our business, operating results and financial condition could be adversely affected by any factors, including, but not limited to, those discussed below. The trading prices of our securities could also decline due to any of these factors including, but not limited to, those discussed below. Moreover, this annual report contains forward-looking statements that involve risks and uncertainties. Our actual results could also differ from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to, the risks faced by us described below and elsewhere in this annual report. See “Cautionary Statement Regarding Forward-Looking Statements.” Forward-looking statements in this section are made only as of the filing date of this annual report.*



## **Risks Related to the Economic and Financial Environment**

***We may be adversely affected if Japanese and global economic conditions and financial markets deteriorate.***

Our financial condition and results of operations are materially affected by general economic conditions and financial markets in Japan and foreign countries, which would be influenced by the changes of various factors. These include fiscal and monetary policies, and laws, regulations and policies on financial markets. Those factors include, for example, the Japanese consumption tax rate. The Japanese consumption tax rate increased from 5% to 8% in April 2014 and was scheduled to further increase to 10% in April 2017. However, Japan's Prime Minister announced in June 2016 that the increase in the consumption tax rate to 10% would be postponed until October 2019, and, following the announcement, the Consumption Tax Act and related laws were amended in November 2016. Furthermore, geopolitical instability in various parts of the world, including North Africa, the Middle East, Asia and Eastern Europe and material changes in regional economic or political unions or associations between countries, including, for example, the United Kingdom's expected exit from the European Union as a result of the referendum held in June 2016 and initiation of formal exit procedures by the United Kingdom's Prime Minister in March 2017, could also contribute to economic instability in those and other regions, which could adversely affect Japanese and global economic conditions.

The deterioration of Japanese and global economic conditions, or financial market turmoil, could result in a worsening of our liquidity and capital conditions, an increase in our credit costs, and an increase in impairment of our investment securities and, as a result, adversely affect our business, financial condition and results of operations.

***Future declines of securities prices on Japanese stock markets or other global markets could cause us to experience impairment losses and unrealized losses on our equity securities portfolio, which could negatively affect our financial condition, results of operations and regulatory capital position.***

The reported value of our available-for-sale equity instruments accounted for 3.0% of our total assets at March 31, 2017, approximately 88.6% of which were Japanese equity securities. This value depends mainly on prices of the instruments in the stock market. In addition, the reported value, gross unrealized gains and losses, and cost of those available-for-sale equity instruments at March 31, 2017 are described in "Item 5.A. Operating Results—Investment Securities."

A listed equity security is impaired primarily based on its market price. If we conclude that a particular security is impaired, we calculate the impairment loss based on the market price of that security at the end of the relevant period. Declines in the Japanese stock markets or other global markets could result in further losses from impairment of the securities in our equity securities portfolio or sales of these securities, adversely affecting our results of operations and financial condition.

Our regulatory capital position and that of the Bank depend in part on the fair value of our equity securities portfolio. Substantial declines in the Japanese stock markets or other global markets would negatively affect our and the Bank's capital positions, and limit the Bank's ability to make distributions to us.

We will further reduce our holdings of equity securities in order to reduce financial risks. Any disposal by us of equity holdings of our customers' shares could adversely affect our relationships with those customers.

***Changes in the levels or volatility of market rates or prices could adversely affect our financial condition and results of operations.***

We engage in trading and investing activities dealing with various kinds of financial instruments such as bonds, equities, currencies, derivatives and funds. For example, we have substantial investments in debt securities. At March 31, 2017, we had ¥6 trillion of Japanese government bonds classified as available-for-sale financial assets, which accounted for approximately 3.0% of our total assets.

Our financial condition and results of operations could be adversely affected by actual changes or volatility in interest rates, foreign exchange rates and market prices of other investment securities. Increases in interest rates could substantially decrease the value of our fixed income portfolio, and any unexpected changes in yield curves could adversely affect the value of our bond and interest rate derivative positions, resulting in lower-than-expected revenues from trading and investment activities. Market volatility may also result in significant unrealized losses or impairment losses on such instruments. Furthermore, the downgrading of investment securities by credit rating agencies may also cause declines in the value of our securities portfolio.

## **Risks Related to Our Business**

### *Failure to satisfy capital adequacy requirements could constrain our and the Bank's operations.*

We and the Bank are subject to capital adequacy requirements established by the Financial Services Agency of Japan ("FSA"). The current requirements reflect the principal risk-weighted capital measures of the Basel III rules text published by the Basel Committee on Banking Supervision ("BCBS") in December 2010 and are being phased in from March 2013 to March 2019. Compared to the previous requirements, the current requirements increase both the quality and quantity of the risk-weighted capital base.

With respect to the quality of the capital base, certain capital instruments, including existing preferred securities and subordinated debt, are eligible for inclusion as Tier 1 capital or Tier 2 capital only for the phase-out period. Preferred stocks convertible into common stocks no longer qualify as Common Equity Tier 1 capital but would qualify as Additional Tier 1 capital if they satisfy certain requirements including the requirement of loss absorbency at the point of non-viability under the Basel III rules. In addition, securities with step-up clauses will no longer qualify as Additional Tier 1 capital, and if the relevant security is classified as a liability for accounting purposes, it must satisfy the requirement of loss absorbency at a pre-specified trigger point, which must be 5.125% or more of Common Equity Tier 1 risk-weighted capital ratio as well as the aforementioned requirement of loss absorbency at the point of non-viability to qualify as Additional Tier 1 capital. With respect to Tier 2 capital, under the Basel III rules, the relevant security must satisfy the requirement of loss absorbency at the point of non-viability to qualify as Tier 2 capital, and subordinated debt securities callable at the initiative of the issuer within five years or with step-up clauses can no longer qualify as Tier 2 capital.

With respect to the quantity of the capital base, the minimum Common Equity Tier 1 risk-weighted capital ratios applicable to us and the Bank have been 4.5% since March 2015. Moreover, we are required to hold a capital conservation buffer to withstand future periods of stress and a countercyclical buffer as additional capital to reduce the buildup of systemic risk in periods and locations of excessive credit growth. The capital conservation buffer started to be phased in from March 2016, with the initial ratio of 0.625% reaching 2.5% by March 2019. Under the phase-in arrangement, we are currently required to maintain 1.25% of Common Equity Tier 1 risk-weighted capital as a percentage of risk weighted assets. As a result, the total minimum Common Equity Tier 1 risk-weighted capital ratio will be increased to 7%, and the total minimum risk-weighted capital ratio will be increased to 10.5% in March 2019. The countercyclical buffer, which started to be phased in from March 2016, is calculated as the weighted average of the buffers in effect in the jurisdictions to which we have credit exposure, with a maximum of 2.5% when fully implemented in March 2019.

In addition, in each year since 2014, we and certain other organizations have been identified by the Financial Stability Board ("FSB") as Global Systemically Important Banks ("G-SIBs"). The list of G-SIBs is updated each year in November, and the requirements for additional capital, in the form of a capital surcharge above the Basel III minimum requirement, have been applied from 2016, initially to those financial institutions identified in 2014 as G-SIBs including us. This requirement is commonly referred to as the G-SIB capital surcharge. Based on the list, we will be required to maintain an additional 1% of Common Equity Tier 1 capital as a percentage of risk-weighted assets when the requirement is fully applied from 2019. Under the phase-in requirements, we are currently required to maintain 0.5% of Common Equity Tier 1 capital as a percentage of

risk-weighted assets. G-SIBs will also be subject to a global standard for Total Loss-Absorbing Capacity (“TLAC”), which defines certain minimum requirements for total loss-absorbing capacity so that if G-SIBs fail, they will have sufficient loss absorbing and recapitalization capacity available in resolution. In November 2015, the FSB published the final TLAC standard. As a G-SIB, we will be subject to the final TLAC standard, as implemented in Japan.

At March 31, 2017, on a consolidated basis, our total risk-weighted capital ratio, Tier 1 risk-weighted capital ratio and Common Equity Tier 1 risk-weighted capital ratio were 16.93%, 14.07% and 12.17%, compared to the minimum required ratios of 9.75%, 7.75% and 6.25%, respectively. All the minimum required ratios stated above include the capital conservation buffer of 1.25% and the G-SIB capital surcharge of 0.5%, but exclude the countercyclical buffer requirements.

Our and the Bank’s capital ratios could decline as a result of decreases in Tier 1 and Tier 2 capital or increases in risk-weighted assets. The following circumstances, among others, could reduce our risk-weighted capital ratio and that of the Bank:

- declines in the value of securities;
- inability to refinance existing subordinated debt obligations or preferred securities eligible for inclusion as Tier 1 capital or Tier 2 capital only for the phase-out period with those qualified as regulatory capital under the new capital adequacy requirements which phased in from March 2013; and
- increases in risk-weighted assets resulting from business growth, strategic investments, borrower downgrades, changes in parameters such as probability of default (“PD”) or regulatory reforms including the revision to the standardized approach for credit risk and capital floors.

We and the Bank have adopted the advanced internal rating-based (“IRB”) approach for measuring exposure to credit risk and the advanced measurement approach (“AMA”) to measure exposure to operational risk. If the FSA revokes its approval of such implementation or otherwise changes its approach to measure capital adequacy ratios, our and the Bank’s ability to maintain capital at the required levels may be adversely affected.

If our or the Bank’s capital ratios fall below required levels, the FSA may require us or the Bank to take a variety of corrective actions, including withdrawal from all international operations or suspension of all or part of our operations, which may indirectly affect our ability to fulfill our contractual obligations or may result in restrictions on our businesses. Failure to maintain capital levels under the capital buffer requirements under Basel III and the requirement for the G-SIB capital surcharge will result in restrictions on capital distributions, such as dividends, share buybacks, discretionary payments on other Tier 1 capital instruments and bonuses. In addition, some of our and the Bank’s domestic and overseas subsidiaries are also subject to local capital ratio requirements. Failure of those subsidiaries to meet local requirements may result in administrative actions or sanctions imposed by local regulatory authorities.

***We may incur losses as a result of financial difficulties of counterparties and other financial institutions.***

We regularly execute transactions with counterparties in the financial services industry. Many of these transactions expose us to credit risk in the event of deterioration of creditworthiness of a counterparty or client. With respect to secured transactions, our credit risk may be exacerbated when the collateral cannot be foreclosed on or is liquidated at prices not sufficient to recover the full amount of the loan or other exposures due to us. Losses from our investments in and loans to other financial institutions could materially and adversely affect our business, financial condition and results of operations. We may also be requested to participate in providing assistance to distressed financial institutions that are not our subsidiaries. In addition, if the funds collected by the Deposit Insurance Corporation of Japan (“DIC”) are insufficient to insure the deposits of failed Japanese banks, the insurance premiums that we pay to the DIC will likely be increased, which could adversely affect our business and results of operations.

***Adverse regulatory developments or changes in government policies could have a negative impact on our results of operations.***

Our businesses are subject to extensive regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations in Japan and the other jurisdictions in which we operate. Those changes and their effects on us are unpredictable and beyond our control.

Changes in the regulatory environment may adversely affect our financial condition and results of operations. In particular, the financial crisis in 2008 has led to calls for significant financial reform measures, and various governments are at different stages of enacting or implementing legislation that will affect financial institutions.

In response to the turmoil following the financial crisis, regulatory authorities reviewed and revised capital adequacy guidelines, particularly in relation to quality of capital and accounting standards; such revisions could adversely affect our capital ratios. In December 2010, the BCBS published the Basel III rules text, setting out certain changes to capital requirements which include raising the quality of banks' capital bases, enhancing risk coverage, inhibiting leverage, reducing pro-cyclicality and introducing liquidity regulation, many of which have been fully applied or phased-in in Japan based on the Basel III implementation schedule.

The FSA's Financial Inspection Manual for financial institutions and related guidelines are revised or amended from time to time. Our implementation of any such changes could result in an increase in our administrative expenses, which could have an adverse effect on our results of operations and financial condition.

The FSA and regulatory authorities in the United States and other jurisdictions, along with the United Nations, have in recent years made the prevention of money laundering and terrorism financing a focus of governmental policy relating to financial institutions. Any regulatory action or change in regulatory focus, whether as a result of inspections or regulatory developments, may negatively affect our banking operations and may require expensive remediation.

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), which was enacted in July 2010, provides a broad framework for significant regulatory changes across most areas of U.S. financial regulations. The Dodd-Frank Act addresses, among other issues, systemic risk oversight, bank capital standards, the resolution of failing systemically significant financial institutions, over-the-counter ("OTC") derivatives, the ability of banking entities to engage in proprietary trading activities and invest in hedge funds and private equity funds, consumer and investor protection, and securitization.

These and similar, or any other kind of significant regulatory developments could adversely affect our capital ratios and results of operations. For further details, see "Item 4.B. Business Overview—Regulations in Japan, Regulations in the United States, and Regulations in Other Jurisdictions." Since those changes in regulation or fiscal or other policies and their effects are unpredictable and beyond our control, we may not be able to comply with those changes at all times, despite our efforts. Any such failures could result in administrative or judicial proceedings against us, including suspension of our business and financial penalties, which could materially and adversely affect our business, reputation, results of operations and financial condition.

***Changes in the competitive and financial environment and financial systems could have a negative effect on the financial services industry and us.***

Deregulation of the financial system, consolidation among financial institutions, diversification within the financial services industry, and the expanded presence of foreign financial institutions and investors have made the Japanese financial services market highly competitive. Moreover, competition in overseas markets has intensified due to global consolidation, convergence and alliances among financial institutions. We compete with various types of financial services companies, including:

- banking groups, including Japan’s other major banking groups;
- government-controlled and government-affiliated entities;
- regional banking institutions;
- major investment banks; and
- non-bank financial institutions.

Government measures implemented to stabilize the market and changes in the regulatory framework as well as other government actions may affect our competitive position. The Japan Post Bank Co., Ltd. (“Japan Post Bank”) is a government-controlled entity due to its status as a subsidiary of Japan Post Holdings Co., Ltd. (“Japan Post Holdings”), and one of the world’s largest deposit-taking financial institutions. Under the Postal Privatization Act, Japan Post Bank is required to receive prior approval of the Government of Japan to expand its business until Japan Post Holdings disposes of at least half of the shares of Japan Post Bank. Japan Post Holdings disposed approximately 11% of its shares of Japan Post Bank and Japan Post Bank was listed on the Tokyo Stock Exchange in November 2015, as the first phase of the plan for Japan Post Holdings to gradually dispose of its shares of Japan Post Bank down to around 50% ownership.

Increased competition in Japan may put downward pressure on prices for our financial services, cause us to lose market share or require us to incur additional expenses in order to remain competitive. Internationally, various forms of financial support provided by foreign governments to foreign banks and other financial institutions may reduce the cost of capital to those institutions and otherwise give them competitive advantages. In addition, new entrants into the financial services industry, including companies in the financial technology (“Fintech”) sector, may further intensify competition in the business environments in which we operate, and as a result, we may be forced to adapt our business to compete more effectively. There can be no assurance that we will be able to respond effectively to current or future competition.

The changes in the financial environment in Japan may also have a negative effect on the Japanese financial services industry. For example, changes in the monetary policy measures of the Bank of Japan (“BOJ”), including the expansion of the negative interest rate policy, may result in a further decrease in interest rates in Japan. This may lower the domestic interest spreads and significantly affect the businesses of commercial banks in Japan, including us, and have other unforeseen side effects on the functioning of and competition within Japan’s financial markets. For further information on the BOJ’s monetary policy measures, see “Item 5. Operating and Financial Review and Prospects—Overview—Factors Affecting Results of Operation.”

***Adverse economic conditions and deterioration of the financial conditions of our customers could increase our credit costs.***

Our non-performing loans (“NPLs”) and credit costs for corporate and individual customers may increase significantly if:

- domestic or global economic conditions worsen or do not improve;
- our customers do not repay their loans, due to reasons including deterioration of their financial conditions; and
- the value of collateral declines.

We have substantial exposure to corporate customers in the following sectors: real estate and goods rental and leasing, manufacturing, wholesale and retail, transportation, communications and public enterprises, and services, including electric utilities, and to individual customers mainly through housing loans. The financial conditions of those customers may be subject to changes in the industry-specific economic conditions, including, for example, fluctuations in oil and gas and other natural resource prices, as well as general economic conditions. In addition, adverse region-specific economic conditions could worsen our customers' financial conditions or could decrease the value of our collateral provided to us in such regions. As a result, we may be required to record increases in our allowance for loan losses.

Moreover, for certain borrowers, we may choose to engage in debt-for-equity swaps or provide partial debt write-offs, additional financing or other forms of assistance as an alternative to exercising our full legal rights as a creditor if we believe that doing so may increase our ultimate recoverable amount of the loan. We may be required to, or choose to, provide new or additional financing to customers who may incur unexpected liabilities, have difficulty in the future in continuing operations, encounter difficulties or need to devote significant resources to repair their infrastructures, as a result of natural disasters or other calamities.

In addition, changes in laws or government policies may have an adverse impact on the rights of creditors. For example, the Government of Japan has provided or may provide in the future government guarantees and other government support measures in response to the financial crisis or other unexpected incidents such as large-scale natural disasters and any subsequent collateral events. Even if our current or future loans to borrowers have received or will receive any government support measures, it is unclear to what extent those loans will benefit, directly or indirectly, from the current or any future government guarantees or support measures.

In addition, our NPLs may increase and there may be additional credit costs if we fail to accurately estimate the incurred losses in our loan portfolio. These estimates require difficult, subjective and complex judgments such as credit evaluation of our borrowers, valuation of collateral and forecasts of economic conditions.

The ratio of impaired loans and advances to the total loans and advances, both net of allowance for loan losses, were 0.7%, 0.8% and 1.0% at March 31, 2017, 2016 and 2015, respectively. For further information, see "Item 5.A. Operating Results—Loans and Advances."

***A significant downgrade of our credit ratings could have a negative effect on us.***

At the date of this annual report, SMFG has the issuer ratings of A1/P-1 from Moody's Japan K.K., ("Moody's"), the issuer credit rating of A- from S&P Global Ratings Japan Inc. ("S&P") and the foreign and local currency issuer default ratings of A/F1 from Fitch Ratings Japan Limited ("Fitch"). There can be no assurance that these ratings will be maintained.

A material downgrade of our credit ratings may have various effects including, but not limited to, the following:

- we may have to accept less favorable terms in our transactions with counterparties, including capital raising activities, or may be unable to enter into certain transactions;
- foreign regulatory bodies may impose restrictions on our overseas operations;
- existing agreements or transactions may be cancelled; and
- we may be required to provide additional collateral in connection with derivatives transactions.

Any of these or other effects of a downgrade of our credit ratings could have a negative impact on the profitability of our treasury and other operations, and could adversely affect our regulatory capital position, liquidity position, financial condition and results of operations. For more information about our credit ratings, see "Item 5.B. Liquidity and Capital Resources."

***We face significant challenges in achieving the goals of our business strategy, and our business may not be successful.***

In May 2017, we and the Bank announced a new medium-term management plan through March 2020. We believe that we have targeted appropriate business areas. However, our initiatives to offer new products and services and to increase sales of our existing products and services may not succeed, if market conditions do not stabilize, market opportunities develop more slowly than expected, our initiatives have less potential than we envisioned originally or the profitability of these products and services is undermined by competitive pressures. Consequently, we may be unable to achieve or maintain profitability in our targeted business areas.

In order to implement our business strategy successfully, we need to hire and train qualified personnel continuously and in a proactive manner, as well as to attract and retain employees with professional experience and specialized product knowledge. However, we face competition from other commercial banks, investment banks, consumer finance companies and other financial services providers in hiring highly competent employees. There can be no assurance that we will succeed in attracting, integrating and retaining appropriately qualified personnel.

***We are exposed to new risks as we expand our businesses, the range of our products and services, and geographic scope of our businesses overseas.***

As part of our business strategies we have expanded and may continue to expand our businesses or our range of products and services beyond our core business, commercial banking. This could expose us to new risks, such as adverse regulatory changes, more competition or deterioration in the operating environments that affect those businesses, products and services. Some of those risks could be types with which we have no or only limited experience. As a result, our risk management systems may prove to be insufficient and may not be effective in all cases or to the degree required.

In accordance with our strategy to further increase our presence in the international financial markets, we may continue to expand the scale of our overseas businesses, especially in emerging economies, notably Asian countries and regions. The expansion of our overseas businesses may further increase our exposure to risks of adverse developments in foreign economies and markets, including interest rate and foreign exchange rate risk, regulatory risk and political risk. Our overseas expansion also exposes us to the compliance risks and the credit and market risks specific to the countries and regions in which we operate, including the risk of deteriorating conditions in the credit profile of overseas borrowers.

***Failure of our business strategies through our subsidiaries, affiliates and other business alliance partners could negatively affect our financial condition and results of operations, including impairment losses on goodwill or investments.***

Aligned with our business strategies, we have made and may undertake acquisition of a subsidiary, investments in affiliates and other business alliance partners, and reorganization within our Group companies. It is uncertain whether we will receive the expected benefits from those business strategies, due to any adverse regulatory changes, worsening of economic conditions, increased competition or other factors that may negatively affect the related business activities. Furthermore, unanticipated costs and liabilities may be incurred in connection with those business strategies, including liabilities from the claims related to the businesses prior to our business alliances, and cost from actions by regulatory authorities.

When we acquire a subsidiary, we may recognize goodwill and intangible assets. Impairment losses on goodwill or intangible assets in connection with acquisitions must be recognized when the recoverable amount of goodwill or intangible assets of the business is lower than the carrying amount at the time of impairment testing, which is performed annually or whenever there is an indication that the goodwill or intangible assets may be impaired.

We account for some of our investments in affiliates under the equity method. Therefore, net losses incurred by equity method investees may cause us to record our share of the net losses. Furthermore, we may lose the capital which we have invested in business alliances or may incur impairment losses on securities acquired in such alliances. We may also be required under contractual or other arrangements to provide financial support, including credit support and equity investments, to business alliance partners in the future. Additionally, we may also incur credit costs from our credit exposure to such partners.

***We are exposed to the industry specific risks of the consumer finance industry.***

Changes in the legal environment have severely and adversely affected the business performance of consumer lending and credit card companies. We have exposures to the risks specific to the consumer finance industry through our subsidiaries, including Cedyne Financial Corporation (“Cedyne”) and SMBC Consumer Finance Co., Ltd. (“SMBC Consumer Finance”).

Consumer lending and credit card companies had offered unsecured personal loans, which included loans with so-called “gray zone” interest in excess of the maximum rate prescribed by the Interest Rate Restriction Act (ranging from 15% to 20%) up to the 29.2% maximum rate permitted under the Act Regulating the Receipt of Contributions, Receipt of Deposits and Interest Rates (“Contributions Act”). However, amendments to laws regulating moneylenders, which increased the authority of government regulators, prohibited gray zone interest and introduced an upper limit on aggregate credit extensions to an individual by moneylenders at one-third of the borrower’s annual income, were promulgated in 2006 and became fully effective in June 2010. After the promulgation of such amendments, Cedyne, SMBC Consumer Finance and other companies engaged in related business reduced their interest rates on loans in preparation for the prohibition of gray zone interest. As a consequence, margins earned by those companies, as well as the amounts of loans extended, decreased.

In addition, as a result of court decisions unfavorable to those companies, claims for refunds of amounts paid in excess of the applicable maximum allowed rate by the Interest Rate Restriction Act have increased substantially. Although Cedyne, SMBC Consumer Finance and other subsidiaries have each recorded a provision for claims for refunds of gray zone interest on loans, we may be required to recognize additional losses if such provisions are determined to be insufficient, and the additional losses could have an adverse effect on our results of operations and financial condition.

***Inability to generate sufficient future taxable profits or adverse changes to tax laws, regulatory requirements or accounting standards could have a negative impact on the recoverability of certain deferred tax assets.***

We recognize deferred tax assets relating to tax losses carried forward and deductible temporary differences only to the extent that it is probable that future taxable profit will be available against which the tax losses carried forward and the temporary differences can be utilized. The deferred tax assets are quantified on the basis of currently enacted tax rates and accounting standards and are subject to change as a result of future changes to tax laws or the rules for computing taxable profits and allowable losses. Failure to generate sufficient future taxable profits or changes in tax laws or accounting standards may reduce our estimated recoverable amount of net deferred tax assets. Such a reduction could have an adverse effect on our financial condition and results of operations.

***Declines in returns on our plan assets or revised actuarial assumptions for retirement benefits may adversely affect our financial condition and results of operations.***

The Bank and some of our other subsidiaries have various defined benefit plans. We have experienced in the past, and may experience in the future, declines in returns on plan assets and changes in the discount rates and other actuarial assumptions. If returns on plan assets decrease, or if we revise the discount rates and other assumptions, the deficit of the impacted defined benefit plan may increase and adversely affect our financial



condition and results of operations. Because more than half of our plan assets are composed of equity instruments, the plan assets are greatly affected by volatility in the prices of equity securities. Substantial declines in the prices for publicly traded Japanese stocks would negatively affect our plan assets. For further information, see Note 23 “Retirement Benefits” to our consolidated financial statements included elsewhere in this annual report.

***Our liquidity could be adversely affected by actual or perceived weaknesses in our businesses and by factors we cannot control, such as a general decline in the level of business activity in the financial services sector.***

We need liquidity to maintain our lending activities, meet deposit withdrawals, pay our operating expenses and pay interest on and principal of debt and dividends on capital stock. Adverse market and economic conditions in the domestic and global economies may limit or adversely affect our access to liquidity required to operate our business. If our counterparties or the markets are reluctant to finance our operations due to factors including actual or perceived weaknesses in our businesses as a result of large losses, changes in our credit ratings, or a general decline in the level of business activity in the financial services sector, we may be unable to meet our payment obligations when they become due or only be able to meet them with funding obtained on unfavorable terms. Circumstances unrelated to our businesses and outside of our control, such as, but not limited to, adverse economic conditions, disruptions in the financial markets or negative developments concerning other financial institutions perceived to be comparable to us, may also limit or adversely affect our ability to replace maturing liabilities in a timely manner. Without sufficient liquidity, we will be forced to curtail our operations, which could adversely affect our business, results of operations and financial condition.

***Sales of our shares by us may have an adverse effect on the market price of our shares and may dilute existing shareholders.***

We may issue shares from the unissued portion of our authorized share capital and sell shares held as treasury stock, generally without a shareholder vote. Sales of shares in the future may be at prices below prevailing market prices and may be dilutive.

***Our business relies on our information technology systems, and their failure could harm our relationships with customers or adversely affect our provision of services to customers.***

In all aspects of our business, we use information technology systems to deliver services to and execute transactions on behalf of our customers as well as for back-office operations. We therefore depend on the capacity and reliability of the electronic and information technology systems supporting our operations. We may encounter service disruptions in the future, owing to failures of these information technology systems. Our information technology systems are subject to damage or incapacitation as a result of quality problems, human errors, natural disasters, power losses, sabotage, computer viruses, acts of terrorism, cyber attacks and similar events. In particular, cyber attacks are becoming more elaborate and, given our reliance on information technology systems in our business, any impairment or destruction of such systems may interfere with, or temporarily prevent us from continuing, our operations. While we have taken steps to protect information technology systems from those risks, including by establishing data recovery capability and functionality, these measures may not be sufficient. In addition, we may not be prepared to address all contingencies that could arise in the event of a major disruption of services. The failure to address such contingencies could harm our relationships with customers or adversely affect our provision of services to customers.

We handle personal information obtained from our individual and corporate customers in relation to our banking, securities, consumer lending, credit card and other businesses. The systems we have implemented to protect the confidentiality of personal information, including those designed to meet the strict requirements of the Act on the Protection of Personal Information, may not be effective in preventing disclosure of personal information by unauthorized access from a third party. Leakage of personal information could expose us to demands for compensation or lawsuits for ensuing economic losses or emotional distress, administrative actions

or sanctions, additional expenses associated with making necessary changes to our systems and reputational harm. As a result, our business, financial condition and results of operations could be materially and adversely affected.

***Fraud, misconduct or other unlawful behavior by directors, officers and employees or third parties could subject us to losses and regulatory sanctions.***

We are exposed to potential losses resulting from fraud, misconduct and other unlawful behavior by directors, officers and employees. Directors, officers and employees may bind us to transactions that exceed authorized limits or present unacceptable risks, hide from us and from our customers unauthorized activities, improperly use confidential information or otherwise abuse customer confidences. Third parties may engage in fraudulent activities, including fraudulent use of bank accounts or the use of false identities to open accounts for money laundering, tax evasion or other illegal purposes. Third parties could also use stolen or forged ATM cards, engage in credit card fraud or transfer funds illegally through online banking fraud, and we may be required to indemnify victims of such fraud for related losses. In the broad range of businesses in which we engage, fraud, misconduct and other unlawful behavior are difficult to prevent or detect. In addition, with or without actual fraud, misconduct and other unlawful behavior by directors, officers and employees, investigations, administrative actions or litigation could commence in relation to them. Furthermore, we may not be able to recover the losses caused by these activities, including possible deterioration of our reputation.

***Transactions involving Iran and other countries and targets that are subject to U.S. or other financial sanctions may lead some potential customers and investors to avoid doing business with us or investing in our securities or may limit our business operations.***

U.S. law generally prohibits or substantially restricts U.S. persons from doing business with countries, a region and persons that are the subject of sanctions administered by the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC") or other agencies ("Restricted Targets" which include Iran, North Korea, Sudan, Syria, Cuba and the Crimea region of Ukraine). Other applicable financial sanctions are administered by the Ministry of Finance of Japan and authorities in other countries.

We maintain a Group-wide policy designed to ensure compliance with U.S. and other applicable sanctions laws and regulations. Our non-U.S. offices engage in transactions relating to the Restricted Targets in compliance with applicable laws and regulations. These activities include remittance of Japanese yen with respect to our customers' export or import transactions, maintenance of correspondent banking accounts with Iranian banks, including the Central Bank of Iran, and the payment of fees in Japanese yen to certain Iranian banks in connection with performance bonds issued in the past by the Bank through these Iranian banks related to our customers' projects in Iran. The performance bonds expired and have not been renewed, but the Bank continues to be obligated to pay certain fees to the Iranian banks. In addition, we maintain a representative office in Iran that mainly performs an information-collecting function and liaising with non-SDN Iranian parties on behalf of our non-U.S. offices.

We do not believe that our operations relating to the Restricted Targets materially affect our business, financial condition or results of operations. A limited number of potential violations of U.S. economic sanctions by the Bank have been identified and voluntarily disclosed to OFAC. These transactions resulted from the inherent limitation on information about underlying transactions that can be obtained in the course of normal banking operations, inadvertent operational errors, or from the lack of familiarity of some personnel of the Bank with the requirements of the relevant regulations in the past. We have continuously strengthened our Group-wide OFAC and other financial sanctions compliance program in an effort to prevent the recurrence of such potential violations. We settled some of the voluntarily disclosed potential violations with OFAC while others remain unsettled. However, in light of the inadvertent nature of such potential violations and the degree to which our strengthened compliance program aims to mitigate the risk of potential violations, we do not believe that our

settlement with OFAC, or any possible penalties that OFAC may impose with respect to the other potential violations that remain unsettled, will have a material impact on our reputation, financial condition or results of operations, or on the prices of our securities.

We are aware of initiatives by U.S. states and U.S. institutional investors, such as pension funds, to adopt laws, regulations or policies prohibiting transactions with or investment in, or requiring divestment from, entities engaged in certain business with Iran and other Restricted Targets. It is possible that such laws and initiatives may result in our inability to enter into transactions with those entities that are subject to such prohibitions or to retain or acquire such entities as customers or investors in our securities.

In recent years, the U.S. government implemented a number of sanctions targeting non-U.S. persons for activities undertaken outside the United States (“secondary sanctions”) that involve specific sanctions targets or certain activities including, among other things, certain transactions related to Iran’s energy, petrochemical, shipping or shipbuilding sectors. Pursuant to the July 14, 2015 Joint Comprehensive Plan of Action (“JCPOA”) agreed to by the five permanent members of the United Nations Security Council plus Germany and Iran, with the European Union, on January 16, 2016 (“Implementation Day”), the United States lifted U.S. nuclear-related secondary sanctions targeting Iran. Even after Implementation Day, certain secondary sanctions remain in effect, including those targeting significant transactions involving Iranian or Iran-related Specially Designated Nationals and Blocked Persons (“SDNs”). In accordance with applicable laws and regulations, the Bank intends to provide certain services, including settlement services in connection with customers’ trade transactions between Japan and Iran, to the extent that such activities are not targeted by remaining secondary sanctions. For more details of relevant laws and regulations, see “Item 4.B. Business Overview—Regulations in the United States—Laws Prohibiting Money Laundering and Terrorist Financing.”

In addition, the U.S. government and authorities in other countries have enacted a series of Ukraine-related sanctions, including those under the U.S. Ukraine-Related Sanctions Regulations, the U.S. Ukraine Freedom Support Act of 2014 and “sectoral” sanctions on the financial, energy and defense sectors of the Russian economy.

The laws, regulations and sanctions referenced above or similar legislative or regulatory developments in the U.S., Japan or other jurisdictions where applicable, may further limit our business operations. If we were determined to have engaged in activities targeted by certain U.S. statutes, Executive Orders or regulations, we could lose our ability to open or maintain correspondent or payable-through accounts with U.S. financial institutions, among other potential sanctions. In addition, depending on sociopolitical developments, even though we take measures designed to ensure compliance with applicable laws and regulations, our reputation may suffer due to our association with the Restricted Targets. The above circumstances could have a significant adverse effect on our business or the prices of our securities.

***Our business operations are exposed to risks of natural disasters, terrorism, pandemics and other calamities.***

Our business operations are subject to the risks of natural disasters, terrorism, pandemics, blackouts, geopolitical incidents and other calamities, any of which could impair our business operations. Despite our preparation of operation manuals and other backup measures and procedures, such calamities could cause us to suspend operations and could adversely affect our businesses, financial condition and results of operations. Large-scale natural disasters such as the Great East Japan Earthquake of March 2011 and any subsequent collateral events, may adversely affect economic conditions in general, the financial conditions of our corporate and individual customers and stock market prices, or cause other negative effects, any or all of which could materially and adversely affect our financial condition and results of operations owing to, for example, an associated increase in the amount of credit-related costs or an increase in losses related to our holdings of securities.

***Our risk management policies and procedures may not adequately address unidentified or unanticipated risks.***

We are exposed to a variety of operational, legal and regulatory risks throughout our organization. Management of these risks requires, among other things, policies and procedures to properly record and verify large numbers of transactions and events. However, these policies and procedures may not be fully effective or sufficient. We have devoted significant resources to strengthening our risk management policies and procedures and expect to continue doing so in the future. Nevertheless, particularly in light of the continuing evolution of our operations and expansion into new areas, our policies and procedures designed to identify, monitor and manage risks may not be fully effective. Some of our methods of managing risks are based upon our use of observed historical market behavior and thus may not accurately predict future risks. Violations of laws including the Japanese antitrust and fair trade laws by us or by the Bank may result in administrative sanctions. Furthermore, investigations, administrative actions or litigation could commence in relation to violations, which may involve costs and may result in deterioration of our reputation.

***Our business could be adversely affected by litigation and regulatory proceedings globally.***

We conduct business in many locations in and outside of Japan. We face the risk of litigation and regulatory proceedings in connection with our operations. For example, if we engage in activities targeted by certain U.S. sanctions, this could result in the imposition of monetary penalties or other restrictions by the U.S. government against us. Lawsuits and regulatory actions may result in penalties or settlements of very large indeterminate amounts or limit our operations, and costs to defend either could be substantial. Moreover, the Bank and one of its subsidiaries contribute to financial benchmarks such as the Tokyo Interbank Offered Rate (“TIBOR”) and the London Interbank Offered Rate (“LIBOR”) for certain specific currencies. These benchmarks are widely referenced in jurisdictions in which we operate and do not operate. We face or may face some investigations, litigation and regulatory proceedings, and an adverse regulatory decision, judgment or ruling, including in jurisdictions we do not operate in, could have a material adverse effect on our business, results of operations and financial condition.

***Damage to our reputation may have an adverse effect on our business and results of operations.***

Maintaining our reputation is vital to our ability to attract and maintain customers, investors and employees. Our reputation could be damaged through a variety of circumstances, including, among others, fraud or other misconduct or unlawful behavior by directors, officers or employees, systems failures, compliance failures, investigations, adverse litigation judgments or regulatory decisions, or unfavorable outcomes of governmental inspections. Negative media coverage of Japan’s financial services industry or us, even if inaccurate or not applicable to us, may have a materially adverse effect on our brand image and may undermine depositor confidence, thereby affecting our businesses and results of operations. For example, actual or rumored investigations of us or our directors, officers or employees, or actual or rumored litigation or regulatory proceedings, or media coverage of the same, may have a material adverse effect on our reputation and could negatively affect the prices of our securities. Actions by the financial services industry generally or by certain members in the industry can also adversely affect customers’ confidence on the financial services industry. Such reputational harm could also lead to a decreased customer base, reduced revenues and higher operating costs.

***Our failure to establish, maintain and apply adequate internal controls over financial reporting could negatively impact investor confidence in the reliability of our financial statements.***

In order to operate as a global financial institution, it is essential for us to have effective internal controls, corporate compliance functions, and accounting systems to manage our assets and operations.

As a New York Stock Exchange (“NYSE”)-listed company and a registrant with the U.S. Securities and Exchange Commission (“SEC”) under section 404 of the U.S. Sarbanes-Oxley Act of 2002, our management is

required to assess the effectiveness of our internal control over financial reporting and disclose whether such internal controls are effective. Our independent registered public accounting firm has to conduct an audit to evaluate and then render an opinion on the effectiveness of our internal control over financial reporting. The Financial Instruments and Exchange Act of Japan (“FIEA”) also requires companies listed on a Japanese stock exchange, such as us, to file, together with their annual securities reports required by the FIEA, audited internal control reports assessing the effectiveness of their internal controls over financial reporting.

We have established internal controls over financial reporting, as well as rules for evaluating those controls, in order to provide reasonable assurance of the reliability of our financial reporting and the preparation of financial statements. However, these controls may not prevent or detect errors. Any evaluation of effectiveness to future periods is subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. To the extent any issues are identified through the foregoing processes, there can be no assurance that we will be able to resolve them in a timely manner or at all. If this occurs, our reputation may be damaged, which could lead to a decline in investor confidence in us.

### **Other Risks**

***It may not be possible for investors to effect service of process within the United States upon us or our directors or senior management, or to enforce against us or those persons judgments obtained in U.S. courts predicated upon the civil liability provisions of the U.S. federal or state securities laws.***

We are a joint stock corporation incorporated under the laws of Japan. Almost all of our directors and senior management reside outside the United States. Many of our assets and the assets of these persons are located in Japan and elsewhere outside the United States. It may not be possible, therefore, for U.S. investors to affect service of process within the United States upon us or these persons or to enforce, against us or these persons, judgments obtained in U.S. courts predicated upon the civil liability provisions of the federal or state securities laws. We believe that there is doubt as to the enforceability in Japan, in original actions or in actions to enforce judgments of U.S. courts, of claims predicated solely upon the U.S. federal or state securities laws mainly because the Civil Execution Act of Japan requires Japanese courts to deny requests for the enforcement of judgments of foreign courts if foreign judgments fail to satisfy the requirements prescribed by the Civil Execution Act, including requirements that:

- the jurisdiction of the foreign court be recognized under laws, regulations, treaties or conventions;
- proper service of process be made on relevant defendants, or relevant defendants be given appropriate protection if such service is not received;
- the judgment and proceedings of the foreign court not be repugnant to public policy as applied in Japan; and
- there exist reciprocity as to the recognition by a court of the relevant foreign jurisdiction of a final judgment of a Japanese court.

Judgments obtained in U.S. courts, predicated upon the civil liability provisions of the U.S. federal or state securities laws, may not satisfy these requirements.

***As a holder of our American Depositary Shares (“ADSs”), you have fewer rights than a shareholder of record in our shareholder register because you must act through the depositary to exercise these rights.***

The rights of our shareholders under Japanese law to take actions such as voting their shares, receiving dividends and distributions, bringing derivative actions, examining our accounting books and records and exercising appraisal rights are available only to our shareholders of record. Because the depositary, through its custodian, is the record holder of the shares underlying the ADSs, only the depositary can exercise shareholder rights relating to the deposited shares. ADS holders will not be able to directly bring a derivative action, examine our accounting books and records or exercise appraisal rights.

Pursuant to the deposit agreement among us, the depositary and the holders and beneficial owners of ADSs, the depositary will endeavor to exercise voting and other rights associated with shares underlying ADSs in accordance with instructions given by ADS holders, and the depositary will also pay to ADS holders dividends and distributions collected from us. However, the depositary is permitted under the deposit agreement to exercise reasonable discretion in carrying out those instructions or in making distributions, and is not liable for failure to carry out instructions or make distributions as long as it acts in good faith. Therefore, ADS holders may not be able to exercise voting or other rights associated with the shares underlying ADSs in the manner that they intend, or may lose some or all of the value of dividends or distributions collected from us. Moreover, the deposit agreement may be amended or terminated by us and the depositary without any reason, or consent from or notice to ADS holders. As a result, ADS holders may not be able to exercise rights in connection with the deposited shares exercised in the way they wish or at all.

ADS holders are dependent on the depositary for certain communications from us. We send to the depositary most of our communications to ADS holders in Japanese. ADS holders may not receive all of our communications in the same manner as or on an equal basis with shareholders of record in our shareholder register.

#### **Item 4. Information on the Company**

##### **4.A. HISTORY AND DEVELOPMENT OF THE COMPANY**

###### **Legal and Commercial Name**

Our legal name is Sumitomo Mitsui Financial Group, Inc. Our commercial name is Sumitomo Mitsui Financial Group.

###### **Date of Incorporation**

We were established in December 2002.

###### **Domicile and Legal Form**

We are a joint stock corporation incorporated with limited liability under the laws of Japan. Our address is: Sumitomo Mitsui Financial Group, Inc., 1-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan. Our telephone number is: +81-3-3282-8111.

###### **History and Development**

We were established in December 2002 as a holding company for the Group through a statutory share transfer (*kabushiki-iten*) of all of the outstanding equity securities of the former SMBC in exchange for our newly issued securities. Upon our formation and completion of the statutory share transfer, the former SMBC became our direct, wholly owned subsidiary. The Bank was established in March 2003 through the merger of the former SMBC with Wakashio Bank, which was established in 1996 as a subsidiary of Sakura Bank. The former SMBC was established in April 2001 through the merger of Sumitomo Bank and Sakura Bank, which was established through the merger of Taiyo Kobe Bank and Mitsui Bank in 1990. Mitsui and Sumitomo started their banking businesses in 1876 and 1895, respectively. The origins of both banking businesses can be traced back to the seventeenth century.

We had previously employed a board of corporate auditors governance system. In order to further enhance our solid corporate governance system, we transitioned to a company with three statutory committees: a nominating committee, an audit committee and a compensation committee, following approval at our ordinary general meeting of shareholders held on June 29, 2017. For further information, see “Item 6.C. Board Practices.”

## **Information Concerning the Principal Capital Expenditures and Divestitures**

On April 1, 2016, Sumitomo Mitsui Finance and Leasing Company, Limited (“SMFL”) acquired General Electric Company (“GE”) group’s leasing business in Japan for ¥181 billion by acquiring a 100% equity interest in GE Japan GK (“GE Japan”). The acquired leasing business is comprised mainly of equipment/asset leasing, small-ticket leasing, and automotive leasing. On September 5, 2016, GE Japan changed its corporate name to SMFL Capital Company, Limited.

## **Public Takeover Offers**

Not applicable.

## **4.B. BUSINESS OVERVIEW**

### **Overview**

We are a holding company that directly owns 100% of the issued and outstanding shares of the Bank, one of the largest commercial banks in Japan. We are one of the three largest banking groups in Japan with an established presence across all of the consumer and corporate banking sectors.

On April 1, 2017, we introduced Group-wide business units, which determine strategies for each customer segment across our Group companies, to further enhance our capability to meet our customers’ diversified needs. In connection with the introduction of such business units, beginning with the fiscal year ending March 31, 2018, we have also reorganized our business segments, which formerly consisted of Commercial Banking, Leasing, Securities and Consumer Finance, with the remaining operations recorded in Others, into Retail Business, Wholesale Business, International Business and Global Markets Business, with the remaining operations recorded in Others. The following information regarding our business segment is presented at March 31, 2017. We will disclose our business segment information in accordance with this new structure beginning with the fiscal year ending March 31, 2018.

Our subsidiaries in our Commercial Banking segment include, in addition to the Bank, SMBC Trust Bank Ltd. (“SMBC Trust Bank”), Kansai Urban Banking Corporation (“KUBC”), THE MINATO BANK, LTD. (“The Minato Bank”), Sumitomo Mitsui Banking Corporation Europe Limited (“SMBC Europe”), and Sumitomo Mitsui Banking Corporation (China) Limited (“SMBC (China)”). Our subsidiaries also include SMFL in our Leasing segment; SMBC Nikko Securities Inc. (“SMBC Nikko Securities”) and SMBC Friend Securities Co., Ltd. (“SMBC Friend Securities”) in our Securities segment; and Sumitomo Mitsui Card Company, Limited (“Sumitomo Mitsui Card”), Cedyne Financial Corporation (“Cedyne”) and SMBC Consumer Finance Co., Ltd. (“SMBC Consumer Finance”) in our Consumer Finance segment. See “Item 4.C. Organizational Structure.”

### **Management Philosophy**

Our Group-wide management philosophy is as follows:

- we grow and prosper together with our customers, by providing services of greater value to them;
- we aim to maximize our shareholders’ value through the continuous growth of our business; and
- we create a work environment that encourages and rewards diligent and highly-motivated employees.

In addition to our Group-wide management philosophy, we have also established a code of conduct. Our code of conduct is designed to be a guideline for the conduct of our directors, officers and employees in the realization of our Group-wide management philosophy in all areas. Our code of conduct is as follows:

- to strive to increase shareholder value whilst also maintaining healthy relationships with customers, employees and other stakeholders. To give utmost consideration to the trust which people have in the Bank, to abide by all laws and regulations, to maintain a high ethical standard, and to act fairly and sincerely;

- to continue improving our knowledge and capability and, at the same time, to raise our productivity in order to provide superior financial services at competitive prices;
- to establish a top brand global bank by understanding the needs of each customer and by providing valuable services which meet those needs;
- to be selective and focused in the implementation of our business strategy, to define and develop the competitive advantages which we have over our competitors and, by allocating managerial resources strategically to those businesses, to become a top player in our selected markets;
- to be creative, proactive and courageous in order to be in a leading position in all business areas and always a step ahead of our competitors;
- to build a strong organization based on market practice and sound principles whilst reflecting our diverse values. To delegate internal authority under an efficient and effective management system which facilitates speedy decision-making and execution; and
- to support the growth of our business by setting challenging targets for our staff and employing results-based evaluation and compensation systems.

## **Environment**

We recognize preservation of the environment as one of our most important management objectives and strive to achieve harmony with the natural environment in our corporate activities.

### ***Basic Philosophy Regarding the Group's Environmental Activities***

Recognizing the importance of realizing a sustainable society as one of our most important tasks, we make continuous efforts to harmonize environmental preservation and pollution control with corporate activities, in order to support the economy and contribute to the betterment of society as a whole.

We and our principal Group companies have obtained ISO 14001 certification, the international standard for environmental management systems. Every year we set environmental objectives which we systematically pursue through environmental activities based on a PDCA (Plan, Do, Check and Act) cycle. The Bank and some of our other Group companies adopted "Principles for Financial Action towards a Sustainable Society" in October 2011, which have been set forth for the purposes of making environmental financing widely-known and improving the quality of environmental financing.

The Bank requires land pledged as collateral to undergo soil contamination and asbestos risk assessment. In addition, we also apply the "Equator Principles," a set of guidelines for financial institutions to assess and manage social and environmental impacts related to the financing of large-scale development projects, when we finance such projects.

## **Description of Operations and Principal Activities**

### ***Commercial Banking***

We offer commercial banking services to a wide range of customers including large corporations, mid-sized companies, small-sized companies, individuals, governments and governmental entities mainly through the Bank. The Bank has solid franchises in both corporate and consumer banking in Japan. The Bank has long-standing and close business relationships with many companies listed on the First Section of the Tokyo Stock Exchange and long historical relationships with the so-called Sumitomo Group and Mitsui Group companies.

The Bank provides an extensive range of corporate and consumer banking services in Japan and overseas. In Japan, the Bank accepts deposits from, makes loans to, extends guarantees to and provides other products and



services to corporations, individuals, governments and governmental entities. The Bank offers financing solutions through loan syndication, structured finance and project finance to large corporate customers in the domestic and overseas markets, as well as a variety of financing options to domestic mid-sized companies, small-sized companies and individuals. The Bank also underwrites and deals in bonds issued by or guaranteed by the Government of Japan and local government authorities, and acts in various administrative and advisory capacities for select types of corporate and government bonds. Internationally, the Bank operates through a network of branches, representative offices, subsidiaries and affiliates to provide loan syndication, project finance and cash management services and participate in international securities markets.

The Bank conducts its primary banking business through its four business units: the Wholesale Banking Unit, the Retail Banking Unit, the International Banking Unit and the Treasury Unit. In addition to the four business units, the Investment Banking Unit, the Corporate Advisory Division, the Private Advisory Division and the Transaction Business Division of the Bank provide a broad range of financial products, services and solutions to address sophisticated and diverse issues and needs of the Bank's customers. The Investment Banking Unit is a cross-sectional unit which operates across the four business units. The Corporate Advisory Division operates within the Wholesale Banking Unit, and the Private Advisory Division operates within the Wholesale Banking Unit and the Retail Banking Unit, while the Transaction Business Division operates within the Wholesale Banking Unit, the Retail Banking Unit and the International Banking Unit. Further, the Bank has the Corporate Staff Unit, the Corporate Services Unit, the Compliance Unit, the Risk Management Unit and the Internal Audit Unit.

#### *The Bank's Wholesale Banking Unit*

The Bank's Wholesale Banking Unit aims to offer business solutions for the increasingly complex and diverse management issues that are faced by large Japanese corporations, including listed companies and mid-sized companies, and, together with certain of our Group companies, provides a wide range of financial products and services targeting those corporations and companies, through 178 sales channels of the Bank at March 31, 2017. The financial products and services that this business unit provides include deposits, loans including syndicated loans, commitment lines, structured finance and nonrecourse loans, settlement services, cash management, leasing, factoring, management information systems consulting, collection and investment banking services. This business unit also provides the following products and services:

- *Services for Globalizing Corporations.* In light of the recent overseas expansion trend, the Bank focuses on offering products and services whereby the Bank assists those customers entering new markets, especially in China and other Asian countries, and accommodates an increase in their international trade operations.
- *Loan Products and Services to Promote Socially Responsible Activities.* The Bank provides a variety of loan products and services designed for corporate clients engaging in socially responsible activities. These activities include environmentally friendly activities, improvement of eating habits, development of agricultural and fishery industries, and development of risk management systems for emergency situations. The Bank evaluates their socially responsible activities and offers loans with certain conditions incorporating the results of its evaluation. Furthermore, in connection with these loans, the Bank provides advice in relation to the client's socially responsible initiatives.
- *Services to Promote B-to-B Transactions.* The Bank, with its subsidiaries and affiliates, provides various internet settlement services to meet its customers' needs. The Bank has promoted these services to stimulate greater demand for its solutions business. Using these services, corporate customers are able to transfer money more easily and effectively, and also utilize foreign exchange services to transfer funds to and from their overseas counterparts in foreign currencies.

#### *The Bank's Retail Banking Unit*

The Bank's Retail Banking Unit provides financial services to both consumers residing in Japan and domestic small-sized companies.

For consumers, this business unit offers a wide range of financial services including personal bank accounts, deposit products such as ordinary deposits, time deposits and foreign currency deposits, and the following products and services through various channels:

- *Housing Loans.* Housing loans, which are principally secured by collateral or supported by guarantees, are one of the primary products offered by this business unit. The Bank provides housing loans with a variety of terms and interest rates, including 2- to 35-year term, fixed-rate loans, to meet diversified customer needs. For instance, the Bank offers a housing loan combined with an insurance policy that covers the repayment of the outstanding loan balance in the event the borrower is diagnosed with certain diseases.
- *Investment Trust.* The Bank, as a broker, provides a variety of investment trust products with varying risk-return profiles that are developed and managed by experienced asset management companies within Japan and overseas. Also, the Bank, together with our subsidiary SMBC Nikko Securities, offers discretionary investment management services.
- *Insurance Products.* The Bank, as an agent, offers pension-type insurance, whereby customers who make all premium payments are able to receive annuity payments when they reach a certain age. The Bank, as an agent, also sells a wide range of insurance products, including medical insurance, home fire insurance, single-premium whole life insurance and level-premium life insurance.
- *Consumer Finance Services.* The Bank offers a variety of consumer loan products such as unsecured card loan products to its individual customers.

In addition, the Bank is promoting the collaboration with our subsidiary SMBC Nikko Securities to meet customers' diverse needs for asset management by leveraging their respective strengths of a broad client base and a high advisory capability.

The operations are mainly conducted through a large and well developed branch network. The Bank had a domestic network consisting of 440 branch offices at March 31, 2017, most of which were located in the Tokyo and Osaka regions. Some branches provide financial consulting services for asset management and housing loans during extended hours, including weekday evenings, weekends and national holidays, for the convenience of individual customers.

The Bank also operates an extensive network of ATMs in Japan. At March 31, 2017, the Bank offers its customers' access to 54,947 ATMs, some of which are the Bank's ATMs and the majority of which are ATMs made available through arrangements with other ATM providers such as convenience store chains.

This business unit also offers internet banking services for consumers. At March 31, 2017, the Bank's internet banking services had approximately 15 million registered users. The users are able to transfer funds, perform balance inquiries, make time deposits and foreign currency deposits, and buy and sell investment trusts over the internet, as well as over the mobile phone or the traditional telephone.

For small-sized companies, this business unit provides a wide array of financial products and services to comprehensively address in the same place business owners' needs as both corporate managers and individuals such as business and asset succession.

The Bank also offers wealth management services to its customers in collaboration with SMBC Trust Bank, SMBC Nikko Securities and Barclays PLC ("Barclays"). For further information on alliance with Barclays, see "—Other Major Group Companies and Alliances—Alliance with Barclays PLC."

#### *The Bank's International Banking Unit*

The Bank's International Banking Unit mainly supports companies, financial institutions, sovereign/quasi-sovereign entities outside Japan, and multinational companies operating in Japan. This business unit provides a

variety of tailored products and services to meet customer and market requirements, including loans, deposits, clearing services, trade finance, project finance, loan syndication and global cash management services.

At March 31, 2017, the Bank's international network consisted of 18 branches, 20 sub-branches and 4 representative offices and the Bank seeks to meet customers' needs globally, together with the network of the Bank's foreign banking subsidiaries such as SMBC Europe with 7 offices and SMBC (China) with 16 offices, and foreign banking associates including PT Bank Tabungan Pensiunan Nasional Tbk, The Bank of East Asia, Limited, ACLEDA Bank Plc. and Vietnam Export Import Commercial Joint Stock Bank.

Based on our strategy of expanding our businesses globally, the Bank has been promoting strategic alliances to enhance products and services with leading financial institutions such as Barclays and Kotak Mahindra Bank Limited. Additionally, in order to further expand our business in the U.S., we and the Bank obtained financial holding company status under the U.S. Bank Holding Company Act of 1956, as amended ("Bank Holding Company Act"), in May 2013, which allows the expansion of the scope of services to provide in the U.S., including underwriting and trading of securities and providing other investment banking services.

#### *The Bank's Treasury Unit*

The Bank's Treasury Unit operates in the domestic and international money, foreign exchange, securities and derivatives markets to serve customer needs and the Bank's own asset and liability management requirements.

To further expand the Bank's customer base, this business unit also seeks to provide specialized solutions and enhance customer service capabilities in market transactions through the following activities:

- providing a variety of products from traditional money and foreign exchange transactions to derivative transactions; and
- developing channels such as an internet banking site providing foreign exchange transactions to satisfy a variety of requirements and orders from customers.

#### *Others*

The Bank also engages in the following business activities through its business units:

- *Payment Services.* The Bank handles money remittances for municipalities, public and private corporations and individuals in Japan and overseas. Domestic remittance services are significant in Japan, where checks are rarely used and money remittance is a major means of payment. The Bank also handles the collection for its customers of promissory notes, bills of exchange and checks.
- *Foreign Exchange.* The Bank engages in a variety of foreign exchange transactions, including foreign currency exchange, overseas transfers and trade finance for export and import activities.

The following unit or divisions provide a broad range of financial products, services and solutions to address sophisticated and diverse issues and needs of the Bank's customers.

- *Investment Banking Unit.* The Investment Banking Unit provides a broad range of sophisticated financial products and services, as follows:
  - *Customized Financial Services and Financing Solutions.* The Bank provides a wide range of innovative financial services and financing solutions to its corporate clients, including loan syndication, structured finance, project finance, acquisition financing such as LBO and MBO financing, non-recourse real estate finance, securitization, derivatives and M&A advisory.
  - *Securities Intermediary Services for Corporate Clients.* The Bank provides corporate clients with securities intermediary services, and offers structured bonds, subordinated bonds and other products to corporate clients in cooperation with SMBC Nikko Securities.

- *Corporate Bond Trust Services.* The Bank serves as a trustee or co-trustee of corporate mortgage bonds. The Bank also serves as a commissioned company for bondholders and as a fiscal and paying agent for unsecured bonds that are issued and publicly offered by domestic and foreign customers. In this role, the Bank also advises issuers about market conditions and provides administrative services on behalf of issuers.
- *Other Trust Services.* The Bank offers other trust services to its customers, including monetary claims trusts for asset securitizations and trusts for structured finance.
- *Principal Investments.* The Bank, directly or through private equity funds, invests in corporate customers seeking to restructure or reorganize themselves or expand their businesses.
- *Solutions Related to Growing Industrial Sectors.* The Bank provides a wide range of solutions to corporate customers addressing businesses related to growing industrial sectors, such as environmental, infrastructure, water, new energy, agriculture, health care, and robot industries.
- *Corporate Advisory Division.* The Corporate Advisory Division complements our service lineup for both listed and non-listed companies, providing financial solutions for the increasingly sophisticated and diverse management issues faced by corporate clients. This division provides a centralized information platform that maintains the Bank's accumulated information and knowledge concerning a wide range of industries. Leveraging this centralized information platform, this division provides the Bank's customers with proposals for strategic initiatives to help enhance their corporate value. This division establishes a separate team for each project and works in cooperation with the Bank's other departments and our Group companies, including SMFL and SMBC Nikko Securities. This division aims to offer comprehensive solutions for M&A, strategic investment, business alliances and other management issues.
- *Private Advisory Division.* The Private Advisory Division addresses areas where the needs of individuals and corporate clients overlap, including private banking, corporate employees business, business succession and asset succession consulting for business owners and high-net-worth individuals.
- *Transaction Business Division.* The Transaction Business Division complements our transaction and financing services, including cash management, settlement, foreign exchange and supply chain finance for our corporate clients. This division aims to offer a variety of products and services to capture customers' cash flows and business flows.

In addition to the Bank, our domestic banking subsidiaries include SMBC Trust Bank, KUBC and The Minato Bank. SMBC Trust Bank, our wholly owned subsidiary, offers extensive trust services tailored to the needs of customers, such as wealth management solutions. In November 2015, SMBC Trust Bank acquired the retail banking business of Citibank Japan Ltd. ("Citibank Japan"), a wholly owned subsidiary of Citigroup Inc. Through this acquisition, SMBC Trust Bank is expanding its business model to offer additional products and services to its customers, including foreign currency investment products and global services. KUBC and The Minato Bank are regional financial institutions based in Kansai area and provide commercial banking services to corporations and individuals. On March 3, 2017, we announced our plan to integrate KUBC, The Minato Bank and The Kinki Osaka Bank, Ltd., which is a regional financial institution based in Kansai area and a wholly owned subsidiary of Resona Holdings, Inc., a financial holding company headquartered in Japan. Under the plan, an intermediate holding company will be incorporated under the umbrella of Resona Holdings, Inc., and the three banks will become wholly owned subsidiaries of the holding company in April 2018. The holding company is planned to be a subsidiary of Resona Holdings, Inc. and our equity-method associate.

Our domestic banking associate is The Japan Net Bank, Limited ("The Japan Net Bank"), which, as an internet bank, provides internet-based services such as deposits, loans and investment products. The Japan Net Bank, which had been our subsidiary, became our associate in April 2014 due to a decrease in our proportion of voting rights.

Our foreign banking subsidiaries include SMBC Europe, SMBC (China), Manufacturers Bank, Sumitomo Mitsui Banking Corporation of Canada, Banco Sumitomo Mitsui Brasileiro S.A., JSC Sumitomo Mitsui Rus Bank, PT Bank Sumitomo Mitsui Indonesia and Sumitomo Mitsui Banking Corporation Malaysia Berhad. On November 1, 2016, the Bank announced the decision to transfer the business operations of Sumitomo Mitsui Banking Corporation of Canada, its wholly owned subsidiary, to its newly established Canada branch. After the completion of the business transfer, Sumitomo Mitsui Banking Corporation of Canada will proceed with liquidation procedures.

Our foreign banking associates include PT Bank Tabungan Pensiunan Nasional Tbk, The Bank of East Asia, Limited, one of the largest commercial banks in Hong Kong, which became our associate in March 2015, ACLEDA Bank Plc., the largest bank in Cambodia, which became our associate in September 2015, and Vietnam Export Import Commercial Joint Stock Bank.

### ***Leasing***

#### *Sumitomo Mitsui Finance and Leasing Company, Limited*

Sumitomo Mitsui Finance and Leasing Company, Limited (“SMFL”), one of the major leasing companies in Japan, provides a variety of leasing services including equipment, operating, leveraged and aircraft leasing. The aircraft leasing business was integrated into SMBC Aviation Capital, a subsidiary of SMFL, in 2013. We have a 60% equity interest in SMFL, while the remaining 40% is held by Sumitomo Corporation, a non-affiliate.

On April 1, 2016, SMFL acquired GE group’s leasing business in Japan by acquiring a 100% equity interest in GE Japan. The acquired leasing business is comprised mainly of equipment/asset leasing, small-ticket leasing, and automotive leasing. This acquisition was made for the purpose of upgrading our marketing strategies and sales capabilities by leveraging GE Japan’s know-how developed under GE, and offering a wide range of financial solutions by enhancing the combined client base of SMFL and GE Japan. On September 5, 2016, GE Japan changed its corporate name to SMFL Capital Company, Limited.

### ***Others***

In addition to the above companies, our U.S. subsidiary SMBC Leasing and Finance, Inc. engages in the leasing business. Our associate Sumitomo Mitsui Auto Service Company, Limited engages in the auto leasing business.

On June 1, 2017, we, through SMBC Rail Services LLC, which is a railcar operating leasing company and a subsidiary of SMBC Leasing and Finance, Inc., acquired all membership interests of American Railcar Leasing LLC, one of the leading railcar leasing companies in the United States. Through this acquisition, we aim to expand our railcar leasing business and enhance the services to fulfill various customer needs in a wide range of industries such as agriculture, petrochemical and natural resources.

### ***Securities***

#### *SMBC Nikko Securities Inc.*

As one of the major Japanese securities companies, SMBC Nikko Securities Inc. (“SMBC Nikko Securities”), our wholly owned subsidiary, offers a wide range of financial products and investment consultation and administrative services to its individual and corporate customers in Japan. For individual customers, SMBC Nikko Securities provides consulting services to meet diversified asset management needs at 124 branches nationwide at March 31, 2017, and a widely used online trading tool. For corporate customers, it also offers trading capabilities and financial products, debt and equity underwriting, and M&A advisory services, mainly in Japan.

SMBC Nikko Securities, together with its overseas network, SMBC Nikko Securities (Hong Kong) Limited, SMBC Nikko Securities (Singapore) Pte. Ltd., SMBC Nikko Capital Markets Limited and SMBC Nikko Securities America, Inc. (“SMBC Nikko Securities America”), seeks to provide financial services such as brokerage services of Japanese stocks, debt underwriting and M&A advisory services to clients on a global basis. To strengthen our cross-border M&A and other advisory services to Japanese companies, SMBC Nikko Securities, the Bank and Moelis & Company, a global investment bank headquartered in New York, established a business alliance in March 2011. In February 2012, we invested approximately \$93 million in Moelis & Company to enhance the existing business alliance.

#### *SMBC Friend Securities Co., Ltd.*

SMBC Friend Securities Co., Ltd. (“SMBC Friend Securities”), our wholly owned subsidiary, is a full-line securities company focusing on retail business. SMBC Friend Securities has a nationwide network that offers services tailored to the needs of its clients and offers online financial consulting services.

On May 12, 2016, we announced our plan to merge SMBC Nikko Securities and SMBC Friend Securities in January 2018. We expect the merger will strengthen our securities business by reinforcing consulting type sales, enhancing productivity through the optimization of sales personnel staffing, and achieving cost saving synergies resulting from the consolidation of overlapping management infrastructure.

#### *Business Alliance with Citigroup Inc.*

In May 2009, we entered into a strategic business alliance with Citigroup Inc. (“Citigroup”) centering on a variety of collaborative activities between SMBC Nikko Securities and Citigroup. As part of this alliance, Citigroup provides us with access to its global corporate and investment banking networks, including sales and trading and M&A services. The long-standing relationship between Citigroup and the former Nikko Cordial Securities Inc. in the origination and distribution of financial products in Japan and globally is being upheld with SMBC Nikko Securities.

#### **Consumer Finance**

##### *Sumitomo Mitsui Card Company, Limited*

Sumitomo Mitsui Card Company, Limited (“Sumitomo Mitsui Card”) is a leading company in Japan’s credit card industry, having introduced the Visa brand into the Japanese market. Sumitomo Mitsui Card conducts a comprehensive credit card business with a strong brand, and offers a variety of settlement and finance services to meet diverse customer needs.

We, Sumitomo Mitsui Card, the Bank and NTT DoCoMo, Inc. (“NTT DoCoMo”) formed a strategic business and capital alliance in credit payment service. We have a 66% equity interest in Sumitomo Mitsui Card, while the remaining 34% is held by NTT DoCoMo. Pursuant to the alliance, Sumitomo Mitsui Card offers a credit payment service using NTT DoCoMo’s mobile phones equipped with contactless IC chips.

In addition, Sumitomo Mitsui Card issues a variety of affiliated credit cards in cooperation with partners including, but not limited to, railway companies, airline companies, department stores and retailers to satisfy both these partners’ and cardholders’ needs. Sumitomo Mitsui Card also provides services for customers such as travelers and retailers both in Japan and China, in alliance from 2005, with China UnionPay Co., Ltd., a bankcard association in China.

##### *Cedyna Financial Corporation*

Cedyna Financial Corporation (“Cedyna”), our wholly owned subsidiary, conducts credit card, installment (such as shopping credit and automobile loan) and solution (such as collection outsourcing and factoring) businesses.

In April 2014, Cedyne transferred its own collection outsourcing business to SMBC Finance Service Co., Ltd., its wholly owned subsidiary that provides collection outsourcing services and has strong customer base and internet settlement know-how, in order to strengthen its competitive edge by taking advantage of scale and promoting streamlining.

On April 1, 2016, Cedyne merged with SAKURA CARD CO., LTD., which had been our subsidiary and engaged in the credit card business. Through this merger, Cedyne aims to further enhance its capability to meet the wide range of customer needs and deliver higher value-added products and services.

#### *SMBC Consumer Finance Co., Ltd.*

SMBC Consumer Finance Co., Ltd. (“SMBC Consumer Finance”), our wholly owned subsidiary, is a core entity in our consumer lending business. It provides consumer loans, together with its wholly owned subsidiary Mobit Co., LTD., that consist mainly of unsecured loans to individuals, and conducts other business including loan guarantee business. SMBC Consumer Finance guarantees certain consumer loans made by the Bank.

#### *Others*

In addition to the above companies, our associate Pocket Card Co., Ltd. engage in the credit card business, and our subsidiary SMM Auto Finance, Inc. engages in automobile sale financing.

### ***Other Major Group Companies and Alliances***

#### *The Japan Research Institute, Limited*

The Japan Research Institute, Limited (“The Japan Research Institute”) is our wholly owned subsidiary that provides financial consultation services on management reform, IT, the planning and development of strategic information systems and outsourcing. It also conducts diverse activities including domestic and international economic research and analysis, policy recommendations and business incubation.

#### *Sumitomo Mitsui Asset Management Company, Limited*

Sumitomo Mitsui Asset Management Company, Limited (“SMAM”) engages in the investment advisory and investment trust management businesses. On July 29, 2016, we acquired an additional 20% of the outstanding shares of SMAM and increased our equity interest in SMAM to 60%. As a result, SMAM, previously our associate, became our subsidiary. Through this acquisition, we aim to enhance our services to comprehensively meet our clients’ needs for asset management.

#### *Alliance with Barclays PLC*

Barclays PLC (“Barclays”) and the Bank entered into an alliance to explore joint business development opportunities, and in April 2010, Barclays, the Bank and SMBC Nikko Securities established a division in SMBC Nikko Securities to provide wealth management services to high-net-worth individuals in Japan. In order to expand and reinforce these services, the Bank and SMBC Nikko Securities restructured the alliance scheme to take responsibility for the business operations, while products and services are provided by Barclays, from April 2017. Regarding collaboration on services to Japanese companies in South Africa and other African countries, in May 2010, the Bank entered into a business alliance agreement with Absa Bank Limited, which is a wholly owned subsidiary of Barclays Africa Group Limited. We have intensified our management-level communications with Barclays regarding, for example, the effects of strengthened regulation of the global banking industry. The Bank believes these initiatives will yield mutual benefits and will facilitate business expansion for us in targeted growth business areas, both foreign and domestic.

### *Credit Loss Protection Agreement with Goldman Sachs*

To expand its overseas portfolio and revenue, the Bank entered into agreements with Goldman Sachs in 2003 to provide credit protection to Goldman Sachs' extension of credit to their investment grade clients in exchange for receiving a proportion of the fees and interest income from the borrowers. In connection with the agreements, Goldman Sachs established certain wholly owned subsidiaries ("William Street Entities") that might make credit commitments and extensions. Goldman Sachs entered into credit loss protection arrangements with the Bank in order to hedge in part the credit risk to its investment in the William Street Entities. The Bank, through its Cayman Islands branch, would issue letters of credit in exchange for fees equal to a portion of the fees and interest to be paid by the borrowers to the William Street Entities. The first letter of credit ("FLC"), was issued in 2003 in a maximum available amount of \$1 billion, and is available over a 20-year period, subject to early termination or extension. Also, from time to time over a 20-year period, subject to early termination or extension and other conditions, upon the request of Goldman Sachs, the Bank has issued letters of credit and may issue one or more additional letters of credit (each a second letter of credit ("SLC Series")) exposing the Bank to risk rated BBB/Baa2 or higher in an aggregate maximum available amount of \$1.125 billion). Goldman Sachs may draw on the letters of credit in the event that Goldman Sachs realizes certain losses ("Specified Losses"), with respect to loan commitments or loans extended thereunder that Goldman Sachs has entered into with specified borrowers approved by the Bank and Goldman Sachs.

Under the FLC, Goldman Sachs is entitled to draw from time to time amounts equal to approximately 95% of Specified Losses, up to an aggregate stated amount of \$1 billion. Under the SLC Series, Goldman Sachs is entitled, subject to certain conditions, to draw from time to time amounts equal to approximately 70% of Specified Losses above specified loss thresholds, up to an aggregate stated amount of \$1.125 billion. Goldman Sachs has made a small number of drawdowns under the FLC in accordance with its terms.

In connection with these credit arrangements, the Bank pays Goldman Sachs an administration fee based on the aggregate amount of commitments covered by the FLC.

The credit loss protection arrangements contain a number of provisions that give the Bank some control over the determination of borrowers to which it has potential exposure under the FLC and any SLC Series:

- Goldman Sachs may make credit commitments covered by the arrangements only to borrowers approved by the Bank.
- Unless the Bank and Goldman Sachs agree otherwise, the borrowers covered by the FLC and any SLC Series that are rated by both of the two major rating agencies must be rated investment grade by at least one, and borrowers that are rated only by one of the two major rating agencies must be rated investment grade by that rating agency. If neither of the two major rating agencies rates a borrower, then further credit to the borrower shall no longer be covered by the FLC or any SLC Series, if the Bank and Goldman Sachs determine the borrower's credit conditions are lower than investment grade.
- If the ratings of an approved borrower fall below investment grade in the judgment of both major rating agencies (or, if a borrower is rated investment grade by only one agency, and that agency downgrades the borrower below investment grade), further credit to that borrower will no longer be covered by these arrangements, unless the Bank and Goldman Sachs otherwise agree.
- On the fifth, tenth and fifteenth anniversaries of the transaction, the Bank has the right to cause Goldman Sachs to stop extending new credit to borrowers the Bank deems to have become "unbankable." Unbankable borrowers are those who have investment grade ratings from the two major rating agencies but are deemed by the Bank to be below BB- and below Ba3 based on the Bank's application of rating agency methodologies and criteria. If Goldman Sachs disagrees with the Bank, the matter is to be referred to arbitration, and a suspension is effective unless and until an arbitrator rules in favor of Goldman Sachs.



The Bank, through a separate bankruptcy-remote Cayman Islands subsidiary, has collateralized the obligations on the FLC and a portion of the SLC Series by buying \$1.723 billion of Goldman Sachs demand notes and pledging those demand notes to Goldman Sachs. If Goldman Sachs activates an SLC Series that is not collateralized, the Bank through its Cayman Islands subsidiary will be required to purchase and pledge additional Goldman Sachs demand notes with a principal amount equal to the stated amount of that SLC Series. Subject to certain conditions, the Bank has the right to substitute as collateral high quality liquid securities for the Goldman Sachs demand notes.

These arrangements are designed to collateralize the Bank's obligations in the event the Bank's Cayman Islands branch fails to perform on the FLC or any SLC Series, including as a result of our insolvency or the insolvency of the Bank or the Bank's Cayman Islands branch.

If Goldman Sachs' credit rating, as determined by either of the two major credit rating agencies, falls below investment grade, Goldman Sachs is obligated to provide collateral to the Bank to support Goldman Sachs' obligations under the Goldman Sachs demand notes. After an initial 15-year period under the letters of credit, the Bank and Goldman Sachs will negotiate in good faith to extend the terms of the letter of credit arrangements for one additional five-year term. Before the expiration of the initial 20-year term, in certain circumstances, the letter of credit arrangements with the Bank may be terminated by the Bank or Goldman Sachs, in which event Goldman Sachs would be obligated to prepay any outstanding demand notes. In circumstances related primarily to the creditworthiness of the Bank or a breach of its representations or covenants, Goldman Sachs may draw on the letters of credit for early termination amounts of up to the remaining undrawn or available amount on the letters of credit. In connection with draws on the letters of credit of early termination amounts, Goldman Sachs would have to prepay any outstanding demand notes. Goldman Sachs also would be obligated to pay the Bank on the originally scheduled expiration date of the letter of credit arrangements an amount equal to the early termination amounts minus the losses that would have been reimbursed under the letters of credit had they not terminated early.

### ***Management Policies***

In May 2014, we established our vision for the next decade of becoming "a global financial group that, by earning the highest trust of our customers, leads the growth of Japan and the Asian region." Based on this vision, we launched a medium-term management plan for the three years through March 31, 2017 with the following four management objectives: "develop and evolve client-centric business models for main domestic and international businesses," "build a platform for realizing Asia-centric operations and capture growth opportunities," "realize sustainable growth of top-line profit while maintaining soundness and profitability" and "upgrade corporate infrastructure to support our next stage of growth."

Our basic policies for the fiscal year ended March 31, 2017, the final year of the three-year medium-term management plan, were as follows: "focus on bottom-line profit by strengthening efforts to improve profitability and efficiency, while maximizing efforts to realize the key initiatives set in the medium-term management plan and grow our top line profit" and "run a strict risk-sensitive operation given the current uncertain business environment, while pursuing new business opportunities by responding to changes in a proactive and innovative manner." Based on these policies, we implemented various initiatives.

On May 15, 2017, we announced our new medium-term management plan, "SMFG Next Stage," for the three-years through March 2020. By combining the Group's strengths with 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 through the provision of products and services that add value to our customers. Under the medium-term management plan, we have established the following three core policies in order to achieve sustainable growth and reach the next stage of our journey towards our vision for the next decade.

### *Disciplined business management*

With the environment for financial institutions expected to remain challenging, we aim to focus on capital, asset, and cost efficiencies to grow our bottom-line profit in a sustainable manner, in other words to become a profitable financial institution through sustained discipline.

While maintaining our competitiveness in the stable domestic market, we intend to allocate resources across our portfolio of businesses in order to prioritize business fields which enhance capital efficiency. In addition, as risk-weighted assets are expected to increase on the back of tightening of international financial regulations, we intend to further strengthen control of our risk-weighted assets. Specifically, by assessing risks based on our risk appetite framework, we intend to seek to recalibrate our business portfolio by reducing low-margin assets whilst investing in more profitable and asset-efficient businesses.

Meanwhile, we intend to optimize workflows and share infrastructures among our Group companies by fully utilizing digital technology. Specifically, we intend to enhance productivity on a Group-wide basis by reorganizing our retail branches and group structure such as through the merging of our security subsidiaries.

### *Focus on our strengths to generate growth*

Based on our core competencies and the opportunities we see for growth we have identified the following “Seven Core Business Areas” which we wish to prioritize as shown below:

- Hold the number one retail banking franchise in Japan;
- Build on our lead position in the Japanese medium-sized enterprise market;
- Increase market share in Corporate & Investment Banking in key global markets;
- Establish a top-tier position in product lines where we are competitive globally;
- Accelerate our “Asia-centric” strategy;
- Strengthen sales and trading capability; and
- Develop asset-light businesses: trust banking and asset management.

In addition to strengthening our domestic businesses, where we possess competitive advantages and can make steady profits, we aim to implement growth strategies in international businesses and global products which are based on the strengths we have. Further, we aim to generate new strengths that will contribute to our future growth.

### *Integration across the Group and globally to achieve sustainable growth*

*Governance and management structure to maximize our business potential.* We transitioned from a company with a board of auditors to a company with three statutory committees in order to enhance our corporate governance system as a Global Systemically Important Financial Institution, “G-SIFI,” following approval at our ordinary general meeting of shareholders held on June 29, 2017. To maximize business opportunities on a Group-wide and global basis, we have established Group-wide business units and introduced a Group Chief Officers system (“CxO system”). Specifically, we intend to seek to meet the needs of a wide range of clients by executing strategies and strengthening services on a Group-wide basis. Further, we intend to optimize resource allocation by sharing management resources, for example by exchanging employees among our Group companies. In addition, we intend to control the allocation of human resources and IT investment on a Group-wide basis by enhancing the capabilities of our planning and management functions. In order to support these initiatives, we intend to introduce management frameworks, such as setting ROE targets for each business unit, and improved management information systems. In addition, we

are planning to revise the executive pay system by introducing stock-based compensation which is linked to financial targets within this medium-term management plan and to our stock performance in order to tighten the link with business performance. We also intend to look into raising the ratio of stock-based compensation for executives in order to ensure the business is well aligned with the shareholder’s perspective.

*Digitalization.* With the rapid advance of digitalization, we aim to proactively introduce new technologies and promote digitalization in various areas such as enhancing the customer experience, generating new businesses, improving productivity and efficiency, and upgrading management infrastructure. Specifically, in order to enhance the customer experience, we intend to implement advanced digital solutions such as utilizing paperless transactions at retail branches and digital contracts with corporate customers. We intend to generate new businesses through digitalization focusing on creating new platforms such as a biometric authentication business. In order to improve productivity and efficiency, we intend to digitalize certain back-office operations at branches and introduce public cloud servicing, which will also lead to work style reform. Furthermore, we intend to enhance data-based management by digitalizing information and “visualizing” the management system.

### Revenues by Region

The following table sets forth the percentage of our total operating income under IFRS for the fiscal years ended March 31, 2017, 2016, and 2015, based on the total operating income of our offices in the indicated regions. For each of the periods presented, we earned three-quarters of our total operating income in Japan, where we compete with other major Japanese banking groups and financial service providers. We earned the remainder in the Americas, Europe and Middle East, and Asia and Oceania, where we mainly compete with global financial institutions.

	<u>For the fiscal year ended March 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Region:</b>			
Japan .....	70%	77%	76%
Foreign:			
Americas .....	9%	5%	5%
Europe and Middle East .....	12%	10%	11%
Asia and Oceania (excluding Japan) .....	9%	8%	8%
Total .....	<u>100%</u>	<u>100%</u>	<u>100%</u>

### Seasonality

Our business is not materially affected by seasonality.

### Sources and Availability of Raw Materials

We are not reliant on any particular source of raw materials.

### Marketing Channels

See “—Description of Operations and Principal Activities” for a discussion of our marketing channels.

### Regulations in Japan

Our businesses are subject to extensive regulation, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations in Japan. On the other hand, deregulation of banking activities in Japan, and more generally of the Japanese financial system, has proceeded, which has made the Japanese banking industry highly competitive.

### *Supervisory and regulatory authorities*

Pursuant to the Banking Act, the FSA has the authority in Japan to supervise banks, bank holding companies and banks' principal shareholders, meaning bank shareholders having 20% (or 15% in some cases) or more of the voting rights of a bank. The BOJ also has supervisory authority over banks in Japan based primarily on its contractual agreements and transactions with Japanese banks. Only companies licensed by the Prime Minister are defined as banks under the Banking Act, and licenses may be granted only to a *kabushiki kaisha*, a joint stock corporation, with paid-up capital of ¥2 billion or more.

#### *The Financial Services Agency of Japan*

The Prime Minister has supervisory authority over banks in Japan, which is generally delegated to the Financial Services Agency of Japan ("FSA") except for matters prescribed by cabinet order. The Minister for Financial Services has the power to direct the FSA. Under the Banking Act, the FSA has supervisory control over banks, bank holding companies and banks' principal shareholders in Japan, except for matters to which the Prime Minister retains authority.

The FSA's authority includes granting and revoking of operating licenses, and approving business activities such as becoming a principal shareholder, establishment of subsidiaries or overseas offices, mergers, corporate splits or business transfers, and dissolutions or discontinuations of business by existing banks, etc.

The FSA may also instruct a Japanese bank to suspend its business or to remove directors if the bank violates laws, other regulations or their articles of incorporation or commits acts contrary to public policy. The FSA may also direct a Japanese bank in financial difficulty to take certain actions, such as holding certain property in Japan for the protection of depositors. Under the prompt corrective action ("PCA") system, the FSA may take corrective actions in the case of capital deterioration of financial institutions.

The Ministry of Finance and the FSA have introduced a number of regulatory measures into the banking sector in Japan to secure sound management of banks, as well as measures to increase the transparency of the regulatory process, such as bank holding company regulations, single customer credit limits, disclosure regulations, regulations regarding reserves for loan losses and inspections.

The Banking Act authorizes the FSA to inspect banks and bank holding companies in Japan at any time and with any frequency. Such inspections are conducted by officials from the FSA's Inspection Department. The FSA monitors the financial soundness of banks and the status and performance of their control systems and reviews their compliance with laws and regulations. The FSA has issued guidelines on its inspection of financial institutions called the Financial Inspection Manual. The Financial Inspection Manual itself does not have the force of law, but the FSA's inspections of banks are based on the Financial Inspection Manual, which emphasizes the need for bank self-assessment rather than assessment based on the advice of the government authority and risk management by each bank instead of a mere assessment of its assets. Following an inspection, the FSA may exercise its authority over a bank under the Banking Act to suspend or terminate its banking business.

#### *The Ministry of Finance*

The Ministry of Finance conducts examinations of banks in relation to foreign exchange transactions under the Foreign Exchange and Foreign Trade Act.

#### *The Bank of Japan*

The Bank of Japan ("BOJ") is the central bank of Japan and serves as the principal instrument for the execution of Japan's monetary policy. The BOJ implements monetary policy mainly by adjusting its basic loan rate, open market operations and imposing deposit reserve requirements. All banks in Japan maintain deposits

with the BOJ and rely substantially upon obtaining borrowings from and rediscounting bills with the BOJ. Moreover, most banks in Japan maintain current accounts under agreements with the BOJ pursuant to which the BOJ can conclude a contract with the Bank concerning on-site examinations. BOJ supervision is intended to support the effective execution of monetary policy, while FSA supervision aims to maintain the sound operations of banks in Japan and promote the security of depositors. Through its examinations, the BOJ seeks to identify problems at an early stage and give corrective guidance where necessary.

### ***Regulations Regarding Capital Adequacy and Liquidity***

#### ***Capital Adequacy Requirement***

In 1988, the BCBS issued the Basel Capital Accord. The Basel Capital Accord sets minimum risk-weighted capital ratios for the purpose of maintaining sound management of banks which have international operations. The minimum risk-weighted capital ratio required was 8% on both a consolidated and nonconsolidated basis. In 2004, the BCBS issued the amended Basel Capital Accord (“Basel II”), which includes detailed measurement of credit risk, the addition of operational risk, a supervisory review process and market discipline through disclosure. These amendments did not change the minimum risk-weighted capital ratio of 8% applicable to banks with international operations (including the Bank). These rules took effect in Japan in 2007, and since 2008, banks are able to apply the advanced IRB approach for credit risk and the AMA for operational risk.

In July 2009, the BCBS approved a final package of measures to enhance certain elements of the Basel II framework, which includes an increase of the risk weights of securitization instruments and revisions of certain trading book rules (referred to as “Basel 2.5”), and the FSA’s capital adequacy guidelines which reflect such framework have been applied in Japan from December 2011.

In September 2009, the Group of Central Bank Governors and Heads of Supervision (the “GHOS”) reached an agreement on several key measures to strengthen regulation of the banking sector, and in December 2009 the BCBS published a consultative document entitled “Strengthening the resilience of the banking sector” containing proposals on these measures centering on several core areas. The BCBS’ proposals focused on raising the quality, consistency and transparency of the regulatory capital base through measures including a requirement that the predominant form of Tier 1 capital must be common shares and retained earnings; limitations on the use of hybrid instruments with an incentive to redeem; a requirement that regulatory adjustments, including deductions of the amount of net deferred tax assets which rely on the future profitability of a bank, be applied to common equity generally; and a requirement for additional disclosure regarding regulatory capital levels.

The BCBS’ proposals also cover the following key areas:

- strengthening the risk coverage of the capital framework;
- introducing a leverage ratio as a supplementary measure to the Basel II risk-based framework with a view to migrating to a Pillar 1 (minimum capital requirement) treatment based on appropriate review and calibration (for further information, see “Leverage Ratio” below);
- introducing measures to promote the build-up of capital buffers in good times that can be drawn upon in periods of stress; and
- introducing minimum liquidity standards for internationally active banks that include a 30-day liquidity coverage ratio requirement underpinned by a longer-term structural liquidity ratio (for further information, see “Liquidity Requirement” below).

In July 2010, the GHOS reached a broad agreement on the overall design of the BCBS’ capital and liquidity reform package. In addition, in August 2010, the BCBS issued for consultation a proposal to enhance the loss absorbency function of regulatory capital. In September 2010, the GHOS announced a substantial strengthening of existing capital requirements. The framework of the proposed reform was endorsed by the G-20 leaders at

their Seoul summit in November 2010. These capital reforms increased the minimum common equity requirement from 2% to 4.5% and will require banks to hold a capital conservation buffer of 2.5% to withstand future periods of stress, bringing the total common equity requirement to 7%. The Tier 1 capital requirement also increased from 4% to 6% (increasing to 8.5% when included together with the above capital conservation buffer). The total capital requirement remains at 8% but will increase to 10.5% with the capital conservation buffer by January 2019. In addition, a countercyclical buffer within a range of 0% to 2.5% of Common Equity Tier 1 capital has been implemented according to national circumstances. The GHOS also agreed on transitional arrangements for implementing the new standards. Under the transitional arrangements, these new capital requirements are being phased in between January 1, 2013 and January 1, 2019. In December 2010, the BCBS published the new Basel III rules text. To reflect changes made by the BCBS, the FSA changed its capital adequacy guidelines. The FSA's changes have mostly been applied from March 31, 2013, which generally reflect the main measures of the minimum capital requirements of the BCBS that started to be phased in on January 1, 2013 and will be fully applied from March 2019. The FSA's changes which reflect capital buffer requirements under Basel III and the G-SIB capital surcharge described below have been applied from March 31, 2016.

In September 2013, the BCBS and the International Organization of Securities Commissions ("IOSCO") released the final framework for margin requirements for non-centrally cleared derivatives ("2013 framework"). This framework will require high quality liquid assets to be posted as margin on non-centrally cleared derivative transactions, which could adversely affect our liquidity position. The requirements were originally planned to be phased in over a four-year period beginning in December 2015 with the largest, most active and most systemically important participants in the derivatives market, including us. In March 2015, the BCBS and IOSCO released revisions to the 2013 framework, which delay the beginning of the phase-in period for collecting and posting initial margin on non-centrally cleared trades from December 2015 to September 2016. The full phase-in schedule has been adjusted to reflect this nine-month delay. The revisions also institute a six-month phase-in period of the requirement to exchange variation margin, which began in September 2016.

In addition to the above-mentioned minimum capital requirements and capital buffer requirements under Basel III, organizations identified by the FSB as G-SIBs, which includes us, are required to maintain an additional 1% to 2.5% of Common Equity Tier 1 capital as a percentage of risk-weighted assets based on the organization's size, interconnectedness, substitutability, complexity and cross-jurisdictional activity as determined by the FSB. This G-SIB capital surcharge requirement started to be phased in from January 2016 and will be fully implemented in January 2019. The amount of G-SIB capital surcharge that applies to us based on the FSB's determination will be 1% of risk-weighted assets when the requirement is fully applied from 2019. The FSB updates its list of G-SIBs on an annual basis.

G-SIBs will also be subject to a global standard for TLAC, which establishes a minimum requirement for loss-absorbing and recapitalization capacity available in resolution at G-SIBs, to ensure that they can be resolved in an orderly manner without putting public funds at risk. In November 2015, as part of its agenda to address risks arising from G-SIBs, the FSB published the final TLAC standard. The final TLAC standard defines certain minimum requirements for instruments and liabilities so that if a G-SIB fails, it will have sufficient loss-absorbing and recapitalization capacity available to ensure that it can be resolved in an orderly manner which minimizes potential impact on financial stability, maintains the continuity of critical functions and avoids exposing public funds to loss. In addition, in April 2016, the FSA published a paper entitled "The FSA's Approach to Introduce the TLAC Framework" ("FSA's Approach") which describes the FSA's approach for the introduction of TLAC requirements in Japan, although it remains subject to change based on future international discussions. According to the FSA's Approach, the preferred resolution strategy for G-SIBs in Japan is Single Point of Entry resolution, in which resolution powers are applied to the top-level entity of a banking group by a single national resolution authority, although the actual measures to be taken will be determined on a case-by-case basis considering the actual condition of the relevant Japanese G-SIB in crisis. To implement this Single Point of Entry resolution strategy effectively, the FSA plans to require bank holding companies of Japanese G-SIBs, which will be the resolution entities, to (i) meet the minimum external TLAC requirements provided under the FSB's TLAC standard (being at least 16% of their risk-weighted assets starting from March

2019 and at least 18% of their risk-weighted assets starting from March 2022), and (ii) cause their material subsidiaries that are designated as systemically important by the FSA, including but not limited to certain material sub-groups as provided in the FSB's TLAC standard, to maintain a certain level of capital and debt recognized by the FSA as internal TLAC, in order that losses incurred at the material sub-group can be absorbed by the bank holding company through such internal TLAC with the involvement of the FSA. In addition, according to the FSA's Approach, Japanese G-SIBs are expected to be allowed to count Japan's deposit insurance fund reserves in an amount equivalent to 2.5% of their risk-weighted assets from March 2019 and 3.5% of their risk-weighted assets from March 2022 as external TLAC.

The final TLAC standard also prescribes a minimum TLAC requirement of at least 6% of the resolution group's Basel III leverage ratio denominator starting from March 2019, increasing to at least 6.75% starting from March 2022, and according to the FSA's Approach, the same external TLAC requirements on the leverage ratio basis are planned to be required for bank holding companies of Japanese G-SIBs. As a G-SIB, we will be subject to the final TLAC standard, as implemented in Japan.

Furthermore, as a disincentive for G-SIBs facing the maximum G-SIB capital surcharge to "increase materially their global systemic importance in the future," an additional 1% capital surcharge could be applied. So long as we are identified as a G-SIB, we are also subject to stronger supervisory mandates and higher supervisory expectations for risk management functions, data aggregation capabilities, risk governance and internal controls. The substance of this heightened supervision has not yet been fixed, but we anticipate that at a minimum any rules will contain more stringent reporting requirements and impose common frameworks for data aggregation and internal risk management processes on G-SIBs.

Because we have been identified as a G-SIB, we are also subject to, among other things, resolution-related requirements described in the FSB's "Key Attributes of Effective Resolution Regimes for Financial Institutions." In particular, the FSB has required the initial group of G-SIBs to have in place a recovery and resolution plan, including a group-level plan, containing various specified elements, to be subject to regular resolvability assessments. Under the Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc., issued by the FSA, as part of crisis management, financial institutions identified as G-SIBs must prepare and submit a recovery plan, which includes a description of events that would trigger implementation of the recovery plan and the analysis of the recovery options to the FSA, and the FSA must prepare the resolution plan for each G-SIB.

In December 2014, the BCBS published a consultative document on the design of a capital floor framework which will replace the current transitional floor based on the Basel I standard with a capital floor based on the Basel II/III standard. The proposed framework will be based on the finalized version of the standardized approach, which is also being revised. The GHOS is planning to review the BCBS' proposals on the design and calibration of capital floors.

Our securities subsidiaries in Japan are also subject to capital adequacy requirements under the FIEA. Under the requirements, securities firms must maintain a minimum capital adequacy ratio of 120% on a nonconsolidated basis and must file periodic reports with the Commissioner of the FSA or the Director-General of the appropriate Local Finance Bureau, and also publicly disclose their capital adequacy ratio on a quarterly basis. In addition, securities firms whose total assets exceed ¥1,000 billion are required to maintain this minimum capital adequacy ratio on a consolidated basis. This requirement on a consolidated basis is applied in addition to and in a manner similar to the requirements on a nonconsolidated basis referred to above. Failure to meet the capital adequacy requirements will trigger mandatory regulatory action. For example, in the case of the requirement on a nonconsolidated basis, a securities firm with a capital adequacy ratio of greater than 120%, but less than 140% will be required to file daily reports with the Commissioner of the FSA or the Director-General of the appropriate Local Finance Bureau. A securities firm with a capital adequacy ratio of less than 120% may be ordered to change its business conduct, place its property in trust or be subject to other supervisory orders, as the

relevant authorities deem appropriate. A securities firm with a capital adequacy ratio of less than 100% may be subject to temporary suspension of all or part of its business operations or cancellation of its license to act as a securities broker and dealer.

The capital adequacy ratio for securities firms is defined as the ratio of adjusted capital to a quantified total of business risks, which include market risks, counterparty risks and operational risks (e.g., risks in carrying out daily business activities, such as administrative problems with securities transactions and clerical mistakes) quantified in the manner specified by a rule promulgated under the FIEA. Adjusted capital is defined as net worth less illiquid assets, as determined in accordance with Japanese GAAP. Net worth consists mainly of stated capital, additional paid-in capital, retained earnings, reserves for securities transactions, certain allowances for doubtful current accounts, net unrealized gains (losses) in the market value of investment securities, and subordinated debt. Illiquid assets generally include non-current market assets, certain deposits and advances, and prepaid expenses.

#### *Leverage Ratio*

In March 2015, the FSA published its leverage ratio guidelines which have been applied from March 31, 2015 to help ensure broad and adequate capture of both on- and off-balance sheet sources of leverage for internationally active banks. The FSA's leverage ratio guidelines are based on the text of the leverage ratio framework and disclosure requirements issued by the BCBS in January 2014. Any final adjustments to the definition and calibration of the leverage ratio were scheduled to be made by the BCBS by 2017, with a view to migrate to a Pillar 1 treatment on January 1, 2018, based on appropriate review and calibration.

In January 2016, the GHOS agreed that the leverage ratio should be based on a Tier 1 definition of capital and should comprise a minimum level of 3%, and the GHOS discussed additional requirements for G-SIBs. The GHOS is planning to finalize the calibration to allow sufficient time for the leverage ratio to be implemented as a Pillar 1 measure by January 1, 2018.

#### *Liquidity Requirement*

In October 2014, the FSA published its guidelines for liquidity coverage ratio ("LCR") applicable to banks with international operations that have been applied from March 31, 2015. These guidelines are based on the full text of the LCR standard issued by the BCBS in January 2013. LCR is intended to promote resilience to potential liquidity disruptions over a thirty-day horizon and help ensure that global banks have sufficient, unencumbered, high-quality liquid assets to offset the net cash outflows they could encounter under an acute short-term stress scenario. Under the FSA's LCR guidelines, banks with international operations must maintain LCR of 100% on both a consolidated basis and a nonconsolidated basis, while the minimum LCR requirements are being phased in between March 31, 2015 and March 31, 2019 with an increase of 10% in each year starting from 60%.

In October 2014, the BCBS issued the final standard for the net stable funding ratio ("NSFR"), which requires a minimum amount of stable sources of funding at a bank relative to the liquidity profiles of the bank's assets, as well as the potential for contingent liquidity needs arising from off-balance sheet commitments, over a one-year horizon. NSFR is scheduled to be introduced as a minimum standard by January 1, 2018.

#### *Self-Assessment, Reserves and Related Disclosure*

Financial institutions, including the Bank, are required to establish self-assessment programs to, among other things, analyze their assets giving due consideration to accounting principles and other applicable rules and to classify their assets into categories taking into account the likelihood of repayment and the risk of impairment to the value of the assets. These classifications determine whether an addition to or reduction in reserves or write-offs is necessary.

Pursuant to the Japanese Institute of Certified Public Accountants ("JICPA") guidelines, the outcome of each financial institution's self-assessment leads to substantially all of a bank's loans and other claims on



customers being analyzed by classifying obligors into five categories: (1) normal borrowers; (2) borrowers requiring caution; (3) potentially bankrupt borrowers; (4) effectively bankrupt borrowers; and (5) bankrupt borrowers. The reserve for possible loan losses is then calculated based on the obligor categories.

FSA guidelines require banks to classify their assets not only by the five categories of obligor but also by four categories of quality. The Bank has adopted its own internal guidelines for self-assessment which conform to guidelines currently in effect and comply with the PCA system requirements.

Based on the results of the self-assessment discussed above, the Bank is required to establish a reserve for its loan portfolio in an amount the Bank considers adequate at a balance sheet date. Three categories of reserves the Bank establishes, for statutory purposes, along with the Accounting Standards for Banks issued by the Japanese Bankers Association, are a general reserve, a specific reserve and a reserve for specific overseas loan losses.

Under the Banking Act, banks and bank holding companies must disclose their non- and under-performing loans (consolidated and nonconsolidated) as risk-monitored loans. Risk-monitored loans are classified into four categories: (1) bankrupt loans, (2) non-accrual loans, (3) past due loans (three months or more) and (4) restructured loans. Banks and bank holding companies are required to submit to the FSA annual reports on their business including the amount of risk-monitored loans. Banks and bank holding companies must disclose their financial statements on an annual basis. The financial statements consist of the balance sheet and income statement, and explanatory documents regarding business and asset conditions, each prepared under the Banking Act both on a nonconsolidated and consolidated basis.

Independent of the Banking Act disclosure regulations, the Act Concerning Emergency Measures for the Revitalization of Financial Functions requires banks to disclose their loans and their other problem assets. Under this law, assets are classified into four categories: (1) bankrupt and quasi-bankrupt assets, (2) doubtful assets, (3) substandard assets and (4) normal assets. Generally, bankrupt and quasi-bankrupt assets correspond to the total of bankrupt loans and the lower tier of the non-accrual loans (the borrowers of which are effectively bankrupt) under the Banking Act disclosure. Doubtful assets generally correspond to the higher tier portion of the non-accrual loans (the borrowers of which are not, but have the potential to become, bankrupt). The substandard assets generally correspond to the total of the restructured loans and past due loans (three months or more). Bankrupt and quasi-bankrupt assets and doubtful assets also include non-loan assets, for example, securities lending, foreign exchange, accrued interest, advanced payments and customers' liabilities for acceptances and guarantees.

#### *Prompt Corrective Action System*

Under the Prompt Corrective Action ("PCA") system, the FSA may take corrective actions depending upon the extent of capital deterioration of a financial institution. The FSA may require a bank to submit and implement a capital reform plan, if;

- the total risk-weighted capital ratio of a bank with international operations becomes less than 8% but not less than 4%;
- the Common Equity Tier 1 risk-weighted capital ratio becomes less than 4.5% but not less than 2.25%;  
or
- the Tier 1 risk-weighted capital ratio becomes less than 6% but not less than 3%.

The FSA may order a bank to (1) submit and implement a plan for improving its capital; (2) prohibit or restrict the payment of dividends to shareholders or bonuses to officers; (3) reduce assets or restrict any increase in assets; (4) prohibit or restrict the acceptance of deposits under terms less advantageous than ordinary terms; (5) reduce the business of some offices; (6) eliminate some offices other than the head office; (7) reduce or prevent the launching of non-banking businesses; or (8) take certain other actions, if;

- the total risk-weighted capital ratio of a bank with international operations declines to less than 4% but not less than 2%;
- the Common Equity Tier 1 risk-weighted capital ratio becomes less than 2.25% but not less than 1.13%; or
- the Tier 1 risk-weighted capital ratio becomes less than 3% but not less than 1.5%.

The FSA may order a bank to conduct any one of the following: (1) a capital increase; (2) a substantial reduction in its business; (3) a merger; or (4) abolishment of its banking business, if;

- the total risk-weighted capital ratio of a bank with international operations declines to less than 2% but not less than 0%;
- the Common Equity Tier 1 risk-weighted capital ratio becomes less than 1.13% but not less than 0%; or
- the Tier 1 risk-weighted capital ratio becomes less than 1.5% but not less than 0%.

The FSA may order the bank to suspend all or part of its business, if the total risk-weighted capital ratio, the Common Equity Tier 1 risk-weighted capital ratio or Tier 1 risk-weighted capital ratio of a bank with international operations declines below 0%.

The FSA may take actions similar to the actions the FSA may take with respect to a bank, if;

- the total risk-weighted capital ratio of a bank holding company that holds a bank with international operations declines to levels below 8%;
- the Common Equity Tier 1 risk-weighted capital ratio declines to levels below 4.5%; or
- the Tier 1 risk-weighted capital ratio declines to levels below 6%.

#### *Prompt Warning System*

The prompt warning system currently in effect allows the FSA to take precautionary measures to maintain and promote the sound operation of financial institutions before those financial institutions become subject to the PCA system. These measures include requiring a financial institution to reform: (1) profitability, if deemed necessary to improve profitability based upon a fundamental profit index; (2) credit risk management, if deemed necessary to reform management of credit risk based upon the degree of large credit concentration and other circumstances; (3) stability, if deemed necessary to reform management of market and other risks based upon, in particular, the effect of securities price fluctuations; and (4) cash flow management, if deemed necessary to reform management of liquidity risks based upon deposit trends and level of reserve for liquidity.

#### *Restrictions on Capital Distributions*

Under the FSA's capital adequacy guidelines and related ordinances, if a bank fails to maintain capital levels under the capital buffer requirements in accordance with Basel III and the G-SIB capital surcharge, the FSA may order a bank to submit and implement a reasonable capital distribution constraint plan to restore the capital levels. This plan shall include restrictions on capital distributions, such as dividends, share buybacks, discretionary payments on other Tier 1 capital instruments and bonuses, in such amount as determined depending on the degree of insufficiency of such requirements.

## ***Regulations for Stabilizing the Financial System***

### *Deposit Insurance System*

The Deposit Insurance Act was enacted to protect depositors when deposit-taking institutions fail to meet their obligations. The Deposit Insurance Corporation of Japan (“DIC”) implements the law and is supervised by the Prime Minister and the Minister of Finance. Subject to limited exceptions, the Prime Minister’s authority is delegated to the FSA Commissioner.

From April 2015 to March 2017, the DIC received annual insurance premiums from member deposit-taking institutions amounting to 0.054% of deposits primarily for payment and settlement purposes and 0.041% of deposits for other deposits, and from April 2017, they amounted to 0.049% and 0.036%, respectively.

Premiums held by the DIC may be either deposited at deposit-taking institutions or used to purchase marketable securities. The insurance money may be paid out to depositors in case of a suspension of repayments of deposits, banking license revocation, dissolution or bankruptcy of a bank. Payouts are generally limited to a maximum of ¥10 million of principal amount together with any interest accrued with respect to each depositor. Only non-interest-bearing deposits that are redeemable upon demand and used by depositors primarily for payment and settlement functions are protected in full.

City banks (including the Bank), regional banks (including member banks of the second association of regional banks), trust banks, credit associations, credit cooperatives, labor banks and Japan Post Bank participate in the deposit insurance system on a compulsory basis.

The Deposit Insurance Act also provides a permanent system for resolving failed deposit-taking institutions.

The basic method for resolving a failed deposit-taking institution under the Deposit Insurance Act is cessation of the business by paying insurance money to depositors up to the principal amount of ¥10 million plus accrued interest per depositor, or pay-off or transfer of the business to another deposit-taking institution, with financial assistance provided within the cost of pay-off. Under the Deposit Insurance Act, transfer of business is regarded as the primary method. In order to affect a prompt transfer of business, the following framework has been established:

- a Financial Reorganization Administrator is appointed by the FSA Commissioner and takes control of the management and assets of the failed deposit-taking institution. The administrator is expected to diligently search for a deposit-taking institution which will succeed to the business of the failed institution;
- if no successor deposit-taking institution can be immediately found, a “bridge bank” will be established by the DIC for the purpose of temporarily maintaining the operations of the failed deposit-taking institution, and the bridge bank will seek to transfer the failed deposit-taking institution’s assets to another deposit-taking institution or dissolve the failed deposit-taking institution; and
- in order to facilitate or encourage a deposit-taking institution to succeed to a failed business, financial aid may be provided by the DIC to any successor deposit-taking institution to enhance its capital after succession or to indemnify it for losses incurred as a result of the succession.

Where it is anticipated that the failure of a deposit-taking institution may cause an extremely grave problem in maintaining the financial order in Japan or the region where the deposit-taking institution is operating, the following exceptional measures may be taken following deliberation by Japan’s Financial Crisis Response Council:

- the DIC may subscribe for shares or other instruments issued by the relevant deposit-taking institution or the holding company thereof and require the institution to submit to the DIC a plan to reestablish sound management (Item 1 measures) (*dai ichigo sochi*);

- once the deposit-taking institution fails, financial aid exceeding the cost of pay-off may be available to the institution (Item 2 measures) (*dai nigo sochi*); and
- if the failed institution is a bank and the problem cannot be avoided by other measures, then the DIC may acquire all of the shares of the bank (Item 3 measures) (*dai sango sochi*).

In order to fund the above-mentioned activities, the DIC may borrow from financial institutions or issue bonds which may be guaranteed by the Government of Japan.

In addition, on June 12, 2013, a bill to amend the Deposit Insurance Act which includes establishment of a new orderly resolution regime of financial institutions was enacted and became effective on March 6, 2014. Financial institutions including banks, securities companies and insurance companies and their holding companies will be subject to the new resolution regime that includes, among others, the following features.

Under the new resolution regime, where the Prime Minister recognizes that the failure of a financial institution which falls into either of (a) or (b) below may cause significant disruption in the financial markets or other financial systems in Japan if measures described in (a) (specified Item 1 measures) (*tokutei dai ichigo sochi*) or measures described in (b) (specified Item 2 measures) (*tokutei dai nigo sochi*) are not taken, the Prime Minister may confirm that any of the following measures need to be applied to the financial institution following deliberation by Japan's Financial Crisis Response Council:

(a) if the financial institution is not a financial institution whose liabilities exceed its assets, which means it is unable to fully perform its obligations with its assets, the DIC shall supervise the operation of business and management and disposal of assets of that financial institution, and may provide it with loans or guarantees necessary to avoid the risk of significant disruption in the financial systems in Japan, or subscribe for shares or subordinated bonds of, or lend subordinated loans to, the financial institution, taking into consideration the financial condition of the financial institution;

(b) if the financial institution is a financial institution whose liabilities exceed or are likely to exceed its assets or which has suspended or is likely to suspend payment of its obligations, the DIC shall supervise the operation of business and management and disposal of assets of that financial institution and may provide financial aid necessary to assist a merger, business transfer, corporate split or other reorganization in respect to such failed financial institution; and

if a measure set out in (b) above is determined to be taken with respect to a financial institution, the Prime Minister may order that the financial institution's operations of business and management and disposal of assets be placed under the special control of the DIC. The business or liabilities of the financial institution subject to the special supervision by the DIC as set forth above may also be transferred to a "bridge bank" established by the DIC for the purpose of the temporary maintenance and continuation of operations of, or repayment of the liabilities of, such financial institution, and the bridge bank will seek to transfer the financial institution's business or liabilities to another financial institution or dissolve the financial institution. The financial aid provided by the DIC to assist a merger, business transfer, corporate split or other reorganization in respect to the financial institution set out in (b) above may take the form of a monetary grant, loan or deposit of funds, purchase of assets, guarantee or assumption of debts, subscription of preferred stock or subordinated bonds, subordinated loan, or loss sharing.

The expenses for implementation of the measures for these crisis management operations will be borne by the financial industry; provided, however, the Government of Japan may provide subsidies to the DIC within the limit to be specified in the government budget in cases where it is likely to cause extremely serious hindrance to the maintenance of the credit system in Japan or significant turmoil in the financial market or other financial system of Japan if such expenses are to be borne only by the financial industry.

In March 2014, the FSA made an announcement clarifying the requirement of loss absorbency at the point of non-viability for additional Tier 1 instruments and Tier 2 instruments under Basel III issued by banks and bank

holding companies. According to the announcement, (i) additional Tier 1 instruments and Tier 2 instruments under Basel III issued by a bank must be written-down or converted into common shares when the Prime Minister of Japan confirms (*nintei*) that the above-described “Item 2 measures (*dai nigo sochi*),” “Item 3 measures (*dai sango sochi*),” or “specified Item 2 measures (*tokutei dai nigo sochi*)” need to be applied to the bank and (ii) additional Tier 1 instruments and Tier 2 instruments under Basel III issued by a bank holding company must be written-down or converted into common shares when the Prime Minister of Japan confirms (*nintei*) that the above-described “specified Item 2 measures (*tokutei dai nigo sochi*)” need to be applied to the bank holding company. The FSA also stated in the announcement that the trigger event for loss absorbency at the point of non-viability with respect to such instruments should be construed in accordance with the then effective financial crisis response framework for banks and bank holding companies that have failed or are likely to fail, since the purpose of such write-down or conversion required under Basel III is to ensure that all classes of these capital instruments fully absorb losses at the point of non-viability before taxpayers are exposed to loss.

#### *Special Measures Act Concerning Facilitation of Reorganization by Financial Institutions, Etc.*

Under the Special Measures Act Concerning Facilitation of Reorganization by Financial Institutions, Etc.: (1) for one year after the merger or transfer of the entire business of a deposit-taking institution, the maximum amount to be covered by the deposit insurance will be ¥10 million multiplied by the number of parties to the merger or business transfer; and (2) the procedures are simplified to a certain extent in connection with the transfer of an entire business or a merger with another deposit-taking institution by a deposit-taking institution that is made in accordance with a management base-strengthening plan that has been approved by the Government of Japan.

#### *Single Customer Credit Limit*

The Banking Act restricts the aggregate amount of credit and loans that may be extended to any single customer in order to avoid the excessive concentration of credit risks and promote the fair and extensive use of bank credit. To tighten the restrictions under Japanese law to meet international standards, the Banking Act and the related cabinet order were amended in June 2013 and October 2014, respectively and those amendments became effective in December 2014. As a result of the amendments, the credit limit of bank holding companies, banks or bank groups for any single customer, including certain of the customer’s affiliates, was lowered from 40% to 25% of the total qualifying capital of the bank holding company, bank or bank group, with certain adjustments.

#### *Restrictions on Activities of a Bank Holding Company*

Under the Banking Act, a bank holding company is prohibited from carrying on any business other than management of its subsidiaries and other incidental businesses. A bank holding company may have any of the following as a subsidiary: a bank, a securities company, an insurance company or a foreign subsidiary that engages in the banking, securities or insurance business. In addition, a bank holding company may have as a subsidiary any company that engages in finance-related business, such as a credit card company, a leasing company or an investment advisory company. Certain companies that are designated by ministerial ordinance as those that cultivate new business fields may also become the subsidiary of a bank holding company.

An amendment to the Banking Act was promulgated in June 2016. Among other things, the amendment (1) requires a bank holding company to enhance group management, by measures including establishment of a basic policy of such group, coordination of conflicts of interest among group companies, development of a group compliance system and others; (2) permits a bank holding company or a group company, with prior approval of the Government of Japan, to manage certain businesses of other group companies that are common and duplicative; and (3) permits a bank or a bank holding company, with prior approval of the government, to hold voting rights of companies conducting businesses that contribute to or are expected to contribute to the

sophistication of the banking business or the enhancement of customer convenience by utilizing information technology or other technologies, regardless of the shareholding restriction described below. The amendment became effective from April 2017.

#### *Restriction on Aggregate Shareholdings by a Bank*

The Act Concerning Restriction on Shareholdings by Banks requires Japanese banks and their qualified subsidiaries to limit the aggregate market value (excluding unrealized gains, if any) of their equity securities holdings to an amount equal to 100% of their consolidated Tier 1 capital, with adjustments, in order to reduce exposure to stock price fluctuations. Treasury shares, shares issued by subsidiaries, shares not listed on any stock exchange or not registered with any OTC market, shares held as trust assets, and shares acquired through debt-for-equity swaps in restructuring transactions are excluded from this limitation. In order to facilitate the disposition of shares of listed stocks held by banks while preventing adverse effects caused by sales of large amounts of shares in a short period of time, share purchases by the Banks' Shareholdings Purchase Corporation of listed shares have been restarted from March 2009.

#### *Shareholding Restrictions Applicable to a Bank Holding Company and a Bank*

The provision of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade which prohibits banks from holding more than 5% of the voting rights of non-financial companies in Japan does not apply to bank holding companies. However, the Banking Act generally prohibits a bank holding company and its subsidiaries, on an aggregated basis, from holding more than 15% of the voting rights of certain types of companies which are not permitted to become subsidiaries of bank holding companies. Also, the Banking Act generally prohibits a bank and its subsidiaries, on an aggregated basis, from holding more than 5% of the voting rights of certain types of companies which are not permitted to become subsidiaries of banks.

#### *Examination and Reporting Applicable to Shareholders of a Bank*

The FSA may request the submission of reports or other materials from a bank and/or its bank holding company, or inspect the bank and/or the bank holding company, if necessary, in order to secure the sound and appropriate operation of the business of a bank.

Under the Banking Act, a person who desires to hold 20% (in some exceptional cases, 15%) or more of the voting rights of a bank is required to obtain advance approval of the FSA Commissioner. In addition, the FSA may request the submission of reports or materials from, or may conduct an inspection of, any principal shareholder who holds 20% (in some exceptional cases, 15%) or more of the voting rights of a bank if the FSA deems the action necessary in order to secure the sound and appropriate operation of the business of the bank. Under limited circumstances, the FSA may order the principal shareholder to take such measures as the FSA deems necessary.

Furthermore, any person who becomes a holder of more than 5% of the voting rights of a bank holding company or a bank must report the ownership of the voting rights to the Director General of the relevant local finance bureau within five business days. This requirement is separate from the significant shareholdings report required under the FIEA. In addition, a similar report must be made in respect of any subsequent change of 1% or more in any previously reported holding or in respect of any change in material matters set out in reports previously filed, with some exceptions.

#### ***Regulations for Protection of Customers***

##### *Protection of Personal Information*

The Act on the Protection of Personal Information and related rules, regulations and guidelines impose requirements on businesses that use databases containing personal information, including appropriate custody of personal information and restrictions on information sharing with third parties.

### *Act on Sales, Etc. of Financial Products*

Due to deregulatory measures in the banking and other financial services industries, more financial products, including highly structured and other complicated products, may now be marketed to a broad base of customers. The Act on Sales, Etc. of Financial Products was enacted to better protect customers from incurring unexpected losses as a result of purchasing these financial products. Under this law, sellers of financial products have a duty to their potential customers to explain important matters (i.e., the nature and magnitude of risk involved) regarding the financial products that they sell. If a seller fails to comply with the duty, the loss in value of the purchased investment product due to the failure to explain is refutably presumed to be the amount of the customer's loss. An amendment to this law, together with other related laws including the FIEA, became effective in September 2007. The amended law enlarges the scope of the duty of financial services providers to inform customers of important matters related to the financial products that they offer.

### *Act Concerning Protection of Depositors and Relief for Victims of Certain Types of Fraud*

The Act Concerning Protection of Depositors from Illegal Withdrawals Made by Forged or Stolen Cards requires financial institutions to establish internal systems to prevent illegal withdrawals of deposits made using forged or stolen bank cards. The law also requires financial institutions to compensate depositors for any amount illegally withdrawn using forged or stolen bankcards, subject to certain conditions.

The Act Concerning Payment of Dividends for Relief of Damages from Funds in Account used in connection with Crimes requires that financial institutions take appropriate measures against various crimes including the closing of accounts used in connection with fraud and other crimes. The law also requires financial institutions to make, in accordance with specified procedures, payments from funds collected from the closed accounts to victims of certain crimes.

### ***Laws Prohibiting Money Laundering and Terrorist Financing***

#### *Act on Prevention of Transfer of Criminal Proceeds*

Under the Act on Prevention of Transfer of Criminal Proceeds, which addresses money laundering and terrorism concerns, financial institutions and certain other entities, such as credit card companies, are required to perform customer identification, submit suspicious transaction reports and keep records of their transactions.

#### *Foreign Exchange and Foreign Trade Act of Japan*

Under the Foreign Exchange and Foreign Trade Act, the Bank is required to confirm that necessary permission from the relevant authorities is obtained by the customer or obtain necessary permission itself, for certain transaction involving targets who are designated under the law and the relevant orders thereunder including North Korea or Iran.

#### *Act on Special Measures Concerning International Terrorist Assets-Freezing, etc. Conducted by the Government Taking into Consideration United Nations Security Council Resolution 1267, etc.*

Under the Act on Special Measures Concerning International Terrorist Assets-Freezing, etc. Conducted by the Government Taking into Consideration United Nations Security Council Resolution 1267, etc., the Bank is generally prohibited to conduct certain transactions including donating or lending of money, securities or real estates or refunding of deposit with International Terrorist, who are designated under the law.

### ***Other Regulations Related to Our Business***

#### *Financial Instruments and Exchange Act of Japan*

The Financial Instruments and Exchange Act of Japan ("FIEA") regulates the securities industry and most aspects of securities transactions in Japan, including public offerings, private placements and secondary trading

of securities, ongoing disclosure by securities issuers, tender offers for securities, organization and operation of securities exchanges and self-regulatory organizations and registration of securities companies. The Prime Minister has the authority to regulate the securities industry and securities companies, which authority is delegated to the FSA Commissioner under the FIEA. The Securities and Exchange Surveillance Commission, an external agency of the FSA, is independent from the Agency's other bureaus and is vested with authority to conduct day-to-day monitoring of the securities markets and to investigate irregular activities that hinder fair trading of securities, including inspection of securities companies as well as banks in connection with their securities business. Furthermore, the FSA Commissioner delegates certain authority to the Director General of the Local Finance Bureau to inspect local securities companies and their branches. A violation of applicable laws and regulations may result in various administrative sanctions, including revocation of registration or authorization, suspension of business or an order to discharge any Director or Executive Officer who has failed to comply with applicable laws and regulations. Securities companies are also subject to the rules and regulations of the Japanese stock exchanges and the Japan Securities Dealers Association, a self-regulatory organization of securities companies.

#### *Regulation of the Consumer Finance Business*

In order to resolve the problems of heavily indebted borrowers and to effect proper regulation of the consumer finance business, in June 2010, maximum legal interest rates were reduced to levels prescribed by the Interest Rate Restriction Act, ranging from 15% to 20%, and gray zone interest, which is interest on loans in excess of rates prescribed by the Interest Rate Restriction Act up to the 29.2% maximum rate permitted under the Contributions Act, was abolished. Judicial decisions have strictly interpreted the conditions under which consumer finance companies may retain gray zone interest. As a result, claims for refunds of gray zone interest increased substantially. Amendments to the Money Lending Business Act provide an additional upper limit on aggregate borrowings by an individual from all moneylenders over which moneylenders may not extend further loans, as well as stricter regulation and supervision of moneylender activities.

#### *Installment Sales Act*

In order to ensure the fairness of transactions with respect to installment and other sales, prevent damage to consumers and manage credit card numbers, the Installment Sales Act imposes requirements on those who conduct installment sales businesses. In June 2008, revisions to the Installment Sales Act were enacted, most of which became effective in December 2009. The revisions impose more stringent and expanded requirements for credit card companies, including, among other things: (1) wider coverage of installment sales under the regulations; (2) measures to prevent inappropriate extensions of credit for certain credit transactions; (3) measures to prevent excessive lending for certain credit transactions that include requirements to investigate the payment ability of consumers by use of designated credit information organizations and prohibition of execution of credit agreements that exceed the payment ability of consumers; and (4) measures to protect certain information, such as credit numbers.

#### *Base Erosion and Profit Shifting (BEPS)*

In July 2013, the Organization for Economic Co-operation and Development ("OECD") published the Action Plan on Base Erosion and Profit Shifting ("BEPS") in order to prevent exploiting of gaps and mismatches in tax rules and artificial shifting of profits to low or no-tax locations. In October 2015, OECD published the final package of measures for a comprehensive, coherent and coordinated reform of the international tax rules for 15 key areas. These measures will apply once they are implemented either in domestic laws or in the network of bilateral tax treaties. Some of the deliverables published by OECD have been partially reflected to Japanese tax regulations by the tax reforms adopted from 2015 through 2017.

#### *Common Reporting Standard (CRS)*

In order to prevent tax evasion and avoidance through offshore financial accounts, the OECD developed the Common Reporting Standards ("CRS"), which calls on jurisdictions to obtain information on financial accounts



of non-residents from their financial institutions and automatically exchange that information with other jurisdictions. From the perspective of implementation of the exchange of information based on CRS, the Act on Special Provisions of the Income Tax Act, the Corporation Tax Act and the Local Tax Act Incidental to Enforcement of Tax Treaties as well as the cabinet and ministerial ordinances thereunder has been amended as part of the tax reform of 2015, which became effective on January 1, 2017, and those who open a financial account with a financial institution located in Japan must submit a self-certification indicating the name of the jurisdiction of residence, etc. From 2018, each financial institution will report information pertaining to financial accounts of specific non-residents and the information will be automatically exchanged with tax administrations of each jurisdiction on an annual basis.

### *Deregulation*

The developments toward deregulation of the financial system including those described below have made the Japanese banking industry highly competitive.

#### *Deregulation of Bank Engagement in the Securities Business*

The gradual relaxation of the restrictions under the Securities and Exchange Act allowed banks to engage in the following business lines, after taking appropriate registration measures with the FSA:

- underwriting and dealing in Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, commercial paper and certain bonds issued by special purpose companies;
- selling beneficiary certificates of investment trusts and securities issued by an investment company; and
- dealing in listed or OTC securities or derivatives transactions as well as in the securities intermediary business.

In addition, amendments to the FIEA and the Banking Act relating to firewalls and conflicts of interest between banks, securities companies and insurance companies became effective on June 1, 2009. The amendment relating to firewalls abolished the ban on certain officers and employees from holding concurrent posts in banks, securities companies and insurance companies, and relaxed restrictions on the transfer of non-public customer information. On the other hand, the amendment relating to conflicts of interest requires those financial institutions, including banks, to implement proper information management procedures and to develop appropriate internal systems to prevent customer interests from being unfairly harmed through trading by the companies or by other companies within their group. For example, the companies may be required to create information barriers between departments and monitor how it executes transactions with customers.

#### *Deregulation of Insurance Products*

The gradual deregulation of the financial services industry permitted banks in Japan to offer an increased variety of insurance products, including pension-type insurance to the full range, as an agent.

#### *Privatization of Japan Post Holdings Co., Ltd.'s subsidiaries*

In December 2014, under the Postal Privatization Act, Japan Post Holdings Co., Ltd. (“Japan Post Holdings”), a joint stock corporation that holds shares of operating companies, published a plan for the listing of Japan Post Holdings, Japan Post Bank, one of the world’s largest deposit-taking institutions, and Japan Post Insurance Co., Ltd. (“Japan Post Insurance”) and the gradual disposition of its shares of Japan Post Bank and Japan Post Insurance down to approximately 50% ownership. In November 2015, each of Japan Post Holdings, Japan Post Bank and Japan Post Insurance publicly offered approximately 11% of their outstanding shares,

respectively, and they were listed on the Tokyo Stock Exchange. Japan Post Bank is required to receive prior approval of the Government of Japan to expand its business until Japan Post Holdings disposes of at least half of the shares of Japan Post Bank.

### **Regulations in the United States**

As a result of its operations in the United States, the Bank and SMFG are subject to extensive federal and state banking and securities supervision and regulation. The Bank engages in U.S. banking activities directly through its branches in Los Angeles, San Francisco and New York and through its representative offices in Houston and Silicon Valley. The Bank also controls a U.S. banking subsidiary, Manufacturers Bank, and a U.S. broker-dealer subsidiary, SMBC Nikko Securities America.

The Bank's New York branch is supervised by the Federal Reserve Bank of New York and the New York State Department of Financial Services, but its deposits are not insured (or eligible to be insured) by the Federal Deposit Insurance Corporation ("FDIC"). The Bank's Los Angeles and San Francisco branches are supervised by the Federal Reserve Bank of San Francisco and the California Department of Business Oversight, but their deposits are not insured (or eligible to be insured) by the FDIC. The Bank's representative office in Houston is subject to regulation and examination by the Texas Department of Banking and the Federal Reserve Bank of Dallas. The Bank's representative office in Silicon Valley is subject to regulation and examination by the California Department of Business Oversight and the Federal Reserve Bank of San Francisco.

The Bank and SMFG are qualifying foreign banking organizations under the U.S. International Banking Act of 1978, as amended ("International Banking Act"), and as such are subject to regulation as bank holding companies under the Bank Holding Company Act. Additionally, the Bank and SMFG are bank holding companies by virtue of their ownership of Manufacturers Bank. As a result, the Bank, SMFG and their U.S. operations are subject to regulation, supervision and examination by the Federal Reserve Board as their U.S. "umbrella supervisor."

Manufacturers Bank is a California state-chartered bank that is not a member of the Federal Reserve System. As a state non-member bank the deposits of which are insured by the FDIC, Manufacturers Bank is subject to regulation, supervision and examination by the FDIC and the California Department of Business Oversight.

In order to further expand our business in the U.S., we and the Bank obtained financial holding company status under the Bank Holding Company Act in May 2013, which authorizes the expansion of the scope of services we provide in the U.S., including the underwriting, dealing and making markets in, securities and other investment banking services.

#### *Restrictions on Business Activities*

As described below, federal and state banking laws and regulations restrict the Bank's and SMFG's ability to engage, directly or indirectly through subsidiaries, in certain activities in the United States.

The Bank and SMFG are required to obtain the prior approval of the Federal Reserve Board before directly or indirectly acquiring the ownership or control of more than 5% of any class of voting shares of U.S. banks, certain other depository institutions and bank or depository institution holding companies. Under the Bank Holding Company Act and the Federal Reserve Board regulations, the Bank is required to serve as a source of financial strength to Manufacturers Bank. In addition, the Bank's U.S. banking operations (including Manufacturers Bank and the Bank's U.S. branches) are also restricted from engaging in certain "tying" arrangements involving products and services.

As financial holding companies, we, the Bank and the companies under our control are permitted to engage in a broader range of activities in the U.S. and abroad than permitted for bank holding companies and their

subsidiaries. Unless otherwise limited by the Federal Reserve Board, financial holding companies generally can engage, directly or indirectly in the U.S. and abroad, in financial activities, either de novo or by acquisition, by providing after-the-fact notice to the Federal Reserve Board. These financial activities include underwriting, dealing and making markets in securities, insurance underwriting and brokerage and making merchant banking investments in non-financial companies for a limited period of time, as long as the financial holding company does not directly or indirectly manage the non-financial companies' day-to-day activities, and the financial holding company's banking subsidiaries engage only in permitted cross-marketing with the non-financial companies. If we or the Bank cease to qualify as financial holding companies, we could be barred from new financial activities or acquisitions, and have to discontinue the broader range of activities permitted to financial holding companies.

#### *Other Prudential Restrictions*

The Bank's U.S. branches and Manufacturers Bank are subject to requirements and restrictions under U.S. federal and state law, including requirements to maintain reserves against deposits, restrictions on the types and amounts of loans that may be made and limitations on the types of investments that may be made and the types of services that may be offered. Various consumer laws and regulations also affect the operations of Manufacturers Bank, and to a limited extent, the Bank's New York and California branches.

In addition, under U.S. federal banking laws, state-chartered banks (such as Manufacturers Bank) and state-licensed branches and agencies of foreign banks (such as the Bank's New York branch) may not, as a general matter, engage as a principal in any type of activity not permissible for their federally chartered or licensed counterparts, unless (i) in the case of state-chartered banks, the FDIC determines that the additional activity would pose no significant risk to the FDIC's Deposit Insurance Fund and is consistent with sound banking practices and (ii) in the case of state-licensed branches and agencies of foreign banks, the Federal Reserve Board determines that the additional activity is consistent with sound banking practices. The U.S. federal banking laws also subject state branches and agencies of foreign banks to the same single-borrower lending limits that apply to federal branches or agencies, which are substantially similar to the lending limits applicable to national banks. For the Bank's U.S. branches, these single-borrower lending limits are based on the worldwide capital of the Bank.

Under the International Banking Act, the Federal Reserve Board may terminate the activities of any U.S. office of a foreign bank if it determines (i) that the foreign bank is not subject to comprehensive supervision on a consolidated basis in its home country (unless the home country is making demonstrable progress toward establishing such supervision), (ii) that there is reasonable cause to believe that such foreign bank or its affiliate has violated the law or engaged in an unsafe or unsound banking practice in the United States and, as a result of such violation or practice, the continued operation of the U.S. office would be inconsistent with the public interest or with the purposes of federal banking laws, or (iii) for a foreign bank that presents a risk to the stability of the United States financial system, the home country of the foreign bank has not adopted, or made demonstrable progress toward adopting, an appropriate system of financial regulation to mitigate such risk.

There are various qualitative and quantitative restrictions on the extent to which SMFG and its subsidiaries can borrow or otherwise obtain credit from its U.S. bank subsidiary, Manufacturers Bank, or engage in certain other transactions involving that subsidiary. In general, these transactions must be on terms that would ordinarily be offered by Manufacturers Bank to unaffiliated entities, and credit transactions must be secured by designated amounts of specified collateral. In addition, certain transactions, such as certain purchases by Manufacturers Bank from the Bank or its non-bank subsidiaries, are subject to volume limitations. Effective in July 2012, the Dodd-Frank Act (discussed below) subjects credit exposure arising from derivative transactions, securities borrowing and lending transactions, and repurchase/reverse repurchase agreements to these collateral and volume transactions limitations.

### *Regulatory Requirements Applicable to Financial Holding Companies*

As financial holding companies, we and the Bank are subject to additional regulatory requirements. For example, we, the Bank and Manufacturers Bank, which is our U.S. insured depository institution subsidiary, must be “well capitalized,” meaning maintenance of a Tier 1 risk-based capital ratio of at least 6% and a total risk-based capital ratio of at least 10% under the revised capital standards of Basel III, which became effective on January 1, 2015 in the U.S. In addition, we, the Bank and Manufacturers Bank must be “well managed,” including maintenance of examination ratings that are at least satisfactory. Further, the Bank is also required to be well capitalized and well managed under its home country standards, which must be comparable to those required for a U.S. bank. Failure to comply with such requirements would require us and the Bank to prepare a remediation plan, and we would not be able to undertake new business activities or acquisitions based on our status as a financial holding company during any period of noncompliance without the prior approval of the Federal Reserve Board. Divestiture or termination of certain business activities in the U.S. may also be required as a consequence of failure to correct such conditions within 180 days.

### *Regulations for Stabilizing the Financial System*

#### *Dodd-Frank Wall Street Reform and Consumer Protection Act*

The Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) provides a broad framework for significant regulatory changes across most areas of U.S. financial regulation. The Dodd-Frank Act addresses, among other issues, systemic risk oversight, bank capital standards, the resolution of failing systemically significant financial institutions, OTC derivatives, the ability of banking entities to engage in proprietary trading activities and invest in hedge funds and private equity funds, consumer and investor protection, hedge fund registration, and securitization.

Implementation of the Dodd-Frank Act is taking place through detailed rulemaking over multiple years by various regulators, including the Office of the Comptroller of the Currency (“OCC”), the Federal Reserve Board, the SEC, the FDIC, the Commodity Futures Trading Commission (“CFTC”), the Financial Stability Oversight Council and the Consumer Financial Protection Bureau.

In December 2013, the Federal Reserve Board, the SEC, the OCC, the FDIC, and the CFTC adopted final rules implementing what is known as the “Volcker Rule.” The final rules require banking entities to conform to certain restrictions on proprietary trading activities, hedge fund and private equity fund activities and certain other enumerated investment restrictions, but contain a number of exclusions and exemptions that substantially limit their extraterritorial reach. Concurrently, with the release of the final rules in December 2013, the Federal Reserve Board issued an order extending the conformance period until July 21, 2015. During the conformance period, banking entities must engage in good-faith efforts to conform their activities and investments to the requirements of the final rules by the conformance deadline. In December 2014, the Federal Reserve Board extended the conformance period to July 21, 2017 for investments in and relationships with “covered funds” (as defined in the Volcker Rule) that were in place prior to December 31, 2013. Although complying with the final rules could result in additional costs, or restrict or otherwise affect the way we conduct our business, the impact remains uncertain.

The Dodd-Frank Act provides regulators with tools to impose greater capital, leverage and liquidity requirements and other prudential standards, particularly for financial institutions that pose significant systemic risk and bank holding companies with assets of \$50 billion or more. In imposing heightened prudential standards on non-U.S. financial institutions such as us and the Bank, the Federal Reserve Board is directed to take into account the principle of national treatment and equality of competitive opportunity, and the extent to which the non-U.S. bank holding company is subject to comparable home country standards.

In February 2014, the Federal Reserve Board adopted final rules that apply enhanced prudential standards to the U.S. operations of large non-U.S. banking organizations, including us. The final rules became effective on

July 1, 2016, and require each of certain large non-U.S. banking organizations, such as us, to certify that it is subject to home country capital standards that are broadly consistent with the Basel capital framework, including Basel III; conduct home country capital stress tests that are comparable to U.S. standards; comply with a certain liquidity requirements, including, among other things, a U.S. liquidity buffer requirement for its U.S. branches and agencies based on the results of internal liquidity stress testing; and establish a U.S. risk committee that periodically reviews the risk management policies and oversees the risk management framework of its U.S. operations.

Under the final rules, non-U.S. banking organizations with combined U.S. assets (excluding assets held by its U.S. branches and agencies) of \$50 billion or more, are required to establish a separately capitalized top-tier U.S. intermediate holding company. However, this requirement does not apply to us because we do not meet this threshold. Although proposed rules have been released, the final rules for single counterparty credit limits and for early remediation have yet to be promulgated.

In July 2011, the Dodd-Frank Act removed a longstanding prohibition on the payment of interest on demand deposits by Manufacturers Bank and the Bank's three branches in the United States. In addition, the Dodd-Frank Act requires that the lending limits take into account credit exposure arising from derivative transactions and securities lending, securities borrowing, and repurchase agreements and reverse repurchase agreements with counterparties. In June 2013, the OCC adopted the final rules that implement these new lending limits, and our New York, Los Angeles, and San Francisco branches must comply with these limits, in addition to existing state lending limits that apply to the branches. Additionally, as a California state-chartered bank, Manufacturers Bank is subject to state lending limits, which also apply to credit exposure arising from derivative transactions.

Furthermore, the Dodd-Frank Act provides for an extensive framework for the regulation of OTC derivatives, including mandatory clearing, exchange trading and transaction reporting of certain OTC derivatives. In October 2012, the final joint rules of the CFTC and the SEC that further define "swap" and "security based swap" became effective. As a result, certain entities are required to register with the CFTC as "swap dealers" or "major swap participants" and our subsidiary, SMBC Capital Markets, Inc., became provisionally registered as a swap dealer on December 31, 2012. While some of the U.S. swaps requirements are already final and effective, others are subject to further rulemaking or deferred compliance dates. Mandatory clearing, trade execution and reporting requirements for swaps took effect in 2013.

Furthermore, the Dodd-Frank Act requires the SEC to establish rules requiring issuers with listed securities, which may include non-U.S. private issuers such as us, to establish a "clawback" policy to recoup previously awarded compensation in the event of an accounting restatement. The Dodd-Frank Act also grants the SEC discretionary rule-making authority to impose a new fiduciary standard on brokers, dealers and investment advisers, and expands the extraterritorial jurisdiction of U.S. courts over actions brought by the SEC or the United States with respect to violations of the antifraud provisions in the Securities Act of 1933, the Securities Exchange Act of 1934 and the Investment Advisers Act of 1940.

### ***Laws Prohibiting Money Laundering and Terrorist Financing***

#### ***The Bank Secrecy Act / USA PATRIOT Act of 2001***

The Bank Secrecy Act, as amended by the USA PATRIOT Act of 2001 ("PATRIOT Act") contains measures to prevent and detect the financing of terrorism and international money laundering by imposing significant compliance and due diligence obligations, creating crimes, providing for penalties and expanding the extraterritorial jurisdiction of the United States. The Bank Secrecy Act, as amended, imposes anti-money laundering compliance obligations on U.S. financial institutions, including the U.S. offices of foreign banks. The passage of the PATRIOT Act and other events have resulted in heightened scrutiny of compliance with the Bank Secrecy Act and anti-money laundering rules by federal and state regulatory and law enforcement authorities. Certain provisions of the PATRIOT Act expired in June 2015 and were extended in part by the USA FREEDOM Act of 2015, enacted in June 2015.

### *U.S. Sanctions Targeting Iran Related Activities*

Starting in 2010, the U.S. government implemented various sanctions targeting non-U.S. parties that engage in specified Iran-related activities. Various statutes, Executive Orders and regulations, including the Comprehensive Iran Sanctions, Accountability and Divestment Act of 2010 (which, among other things, amended the Iran Sanctions Act of 1996, Section 1245 of the National Defense Authorization Act for Fiscal Year 2012, Executive Orders 13622 and 13645, the Iran Threat Reduction and Syria Human Rights Act of 2012, and the Iran Freedom and Counter-Proliferation Act of 2012, authorize or authorized the imposition of sanctions on parties that engage in, among other things, certain activities relating to Iran's energy, petroleum, shipping or shipbuilding sectors or that facilitate "significant" transactions or provide "significant financial services" for certain Iran-linked individuals or entities or the Islamic Revolutionary Guard Corps.

Pursuant to the JCPOA, the United States and the European Union have provided Iran with certain sanctions relief. On Implementation Day, the United States government revoked certain Iran-related Executive Orders, temporarily waived certain statutory provisions (in certain cases, extending temporary sanctions waivers that had previously been in effect), and removed various individuals and entities from the Specially Designated Nationals and Blocked Persons List (the "SDN List") maintained by OFAC. However, U.S. persons continue to be generally prohibited from engaging in transactions involving Iran. In addition, certain U.S. secondary sanctions targeting Iran remain in effect, including those targeting significant transactions involving Iranian or Iran-related SDNs or the Islamic Revolutionary Guard Corps. Non-U.S. financial institutions that engage in sanctionable activity could lose their ability to open or maintain correspondent or payable-through accounts with U.S. financial institutions, among other possible sanctions. It is the Bank's policy not to conduct activities targeted by remaining secondary sanctions.

Pursuant to the JCPOA, there also remains a possibility that, if Iran is found to be in non-compliance with its commitments under the JCPOA, sanctions that have been waived or lifted, including nuclear-related secondary sanctions, could be re-imposed.

### *Ukraine Freedom Support Act of 2014*

In order to deter the Russian government from further destabilizing and invading Ukraine, the U.S. government enacted H.R. 5859, the Ukraine Freedom Support Act of 2014 (signed into law on December 18, 2014). Among other things, the Act authorizes prohibitions or strict limitations on the opening or maintaining of correspondent or payable-through accounts in the United States by non-U.S. financial institutions determined by the U.S. government (i) to have knowingly engaged in on or after December 18, 2014 in significant transactions involving certain activities described in the Act, including those involving individuals or entities on whom sanctions are imposed pursuant to the Act for making a significant investment in a project for the extraction of deepwater, Arctic offshore or shale formation crude oil in Russia, or (ii) to have knowingly facilitated, on or after June 16, 2015, a significant financial transaction on behalf of any Russian individual or entity included on the SDN List pursuant to Ukraine-related sanction programs.

### *Foreign Account Tax Compliance Act*

Provisions of the U.S. tax law commonly referred to as the Foreign Account Tax Compliance Act ("FATCA"), which became effective on July 1, 2014, aim to prevent U.S. persons from hiding their financial assets or evading their U.S. federal income tax obligations by the use of offshore accounts. A foreign financial institution that has entered into an agreement with the U.S. Internal Revenue Service ("IRS") pursuant to which it agrees to comply with FATCA, referred to as a "participating foreign financial institution" ("PFFI"), is required to perform specified due diligence, reporting and withholding functions (a "PFFI agreement"). Specifically, under FATCA, a PFFI is required to ascertain the U.S. status of customers through specified due diligence and report certain information annually to the IRS. In cases where customers are not compliant with FATCA, PFFIs are obligated to carry out specified reporting and withholding procedures as prescribed. The consequences for foreign financial institutions that are not compliant with FATCA include being subjected to a 30% withholding tax on certain withholdable payments from U.S. sources and reporting to the IRS.

The United States entered into intergovernmental agreements or reached agreements in substance with more than 100 countries in furtherance of the objectives of FATCA, which modify the operation of FATCA with respect to financial institutions located in those countries. The United States and Japan have entered into an intergovernmental agreement to facilitate the implementation of FATCA pursuant to which Japanese financial institutions (such as us and certain of our Group companies) are directed by the Japanese authorities to register with the IRS and fulfill obligations consistent with those required under a PFFI agreement. We have registered with the IRS to become a PFFI. We are committed to complying with FATCA as a PFFI and abiding by the terms of our PFFI agreement with the IRS within the jurisdictions in which we operate and in accordance with the time frame set out by the IRS. We intend to closely monitor FATCA developments and evolving industry practices to ensure continued compliance with FATCA moving forward.

### ***Other Regulations in the United States***

In the United States, the Bank's U.S.-registered broker-dealer subsidiary, SMBC Nikko Securities America, is regulated by the SEC. Broker-dealers are subject to regulations that cover all aspects of the securities business, including:

- sales methods;
- trade practices among broker-dealers;
- use and safekeeping of customers' funds and securities;
- capital structure;
- record-keeping;
- the financing of customers' purchases; and
- the conduct of directors, officers and employees.

In addition, SMBC Nikko Securities America is a member of and regulated by the Financial Industry Regulatory Authority and is regulated by the individual state securities authorities in the states in which it operates. The U.S. government agencies and self-regulatory organizations, as well as state securities authorities in the United States having jurisdiction over the Bank's U.S. broker-dealer affiliates, are empowered to conduct administrative proceedings that can result in censure, fine, the issuance of cease-and-desist orders or the suspension or expulsion of a broker-dealer or its directors, officers or employees.

### **Regulations in Other Jurisdictions**

Elsewhere in the world, our operations are subject to regulation and control by local central banks and monetary authorities.

### **Disclosure Pursuant to Section 13(r) of the Securities Exchange Act of 1934**

Section 13(r) of the Securities Exchange Act of 1934, as amended, requires an issuer to disclose whether it or any of its affiliates knowingly engaged in certain activities or transactions relating to Iran or with individuals or entities designated by the U.S. government under specified Executive Orders, even if those activities are not prohibited by U.S. law and are conducted outside the United States by non-U.S. affiliates. During the twelve months ended March 31, 2017, one affiliate of SMFG, SMBC, engaged in activities subject to disclosure under Section 13(r). SMBC conducted these activities consistent with its internal policies and procedures, the policies and procedures of SMFG, and applicable laws and regulations, and to the extent they are not sanctionable under U.S. secondary sanctions.

SMBC issued letters of credit and provided remittance and other settlement services in connection with customers' trade transactions between Japan and Iran. These transactions principally involved the importation of

oil into Japan or exportation of civilian commercial products from Japan and were conducted with Iranian banks, including the Central Bank of Iran and one other bank owned by the Government of Iran. SMBC supported a Japanese importing company by paying bills of exchange in connection with imports of crude oil from an Iranian oil company owned by the Government of Iran. These transactions did not involve entities or other persons on the SDN List and did not involve the settlement of U.S. dollar-denominated payments cleared through U.S. banks. SMBC has informed SMFG that it intends to continue to engage in these types of transactions to the extent permitted under applicable regulations and to the extent they are not sanctionable under U.S. secondary sanctions. For the twelve months ended March 31, 2017, the gross revenue related to these transactions was ¥14.0 million, representing about 0.0005% of SMFG's total interest and fee income. SMFG does not allocate direct costs to interest and fee income and therefore does not calculate net profits with respect to these transactions.

In addition, in accordance with applicable laws, regulations and sanctions relief measures (including sanctions relief under the November 24, 2013 Joint Plan of Action (“JPOA”), while it was in effect), SMBC has conducted certain settlement services related to humanitarian trade with Iran. We are voluntarily disclosing such transactions, although we do not believe those transactions are subject to disclosure under Section 13(r) of the Securities Exchange Act of 1934. The JPOA and JCPOA provide for the establishment of a financial channel to facilitate humanitarian trade for Iran's domestic needs using Iranian oil revenues held abroad. The overall framework to provide these services is based on an agreement between the U.S. and Japanese authorities and was reviewed by U.S. and Japanese authorities for compliance with applicable laws and regulations. The services provided under the framework are permitted under certain conditions; the remittances are required to be processed in Japanese yen through a “Special Purpose Account” for humanitarian trade; and the sellers of the humanitarian goods, namely food, agricultural products, medicines and medical devices, are limited to Japanese entities and other entities permitted by U.S. regulators. To facilitate the export of humanitarian goods to Iran, at the request of U.S. and Japanese regulators and with the written authorization of the U.S. government, SMBC has provided remittances in connection with the export of humanitarian goods to Iran starting in March 2014. These transactions were conducted through the use of yen accounts maintained with SMBC in Japan by a Government of Iran owned Iranian financial institution. These transactions did not involve U.S. dollars or clearing services of U.S. banks for the settlement of payments. SMBC no longer intends to continue with these remittances and has closed the Special Purpose Accounts that were previously maintained.

SMBC has issued performance bonds that supported various projects, including the construction of petroleum plants in Iran. Some of these performance bonds had counterparties that were entities controlled by the Government of Iran. Some of these performance bonds have matured, and SMBC has not renewed and will not renew them, but SMBC continues to have obligations under the matured performance bonds until they are returned or cancelled by the beneficiaries. SMBC has also received fees from its customers on whose behalf it issued the performance bonds. For the twelve months ended March 31, 2017, the gross revenue relating to these transactions was ¥70.4 million, representing less than 0.0024% of SMFG's total interest and fee income. As noted above, SMFG does not allocate direct costs to interest and fee income and therefore does not calculate net profits with respect to these transactions. SMBC has informed SMFG that it intends to continue to accept fee income from its customers for whose account the performance bonds were issued and to pay the relevant fees to the Iranian banks, to the extent authorized by the Ministry of Finance of Japan or otherwise permitted under applicable regulations, until the bonds are returned or cancelled. However, SMBC strongly urges the relevant customers to ask the beneficiaries to agree to return or cancel the matured performance bonds.

SMBC has frozen an account of an Iranian bank designated under Executive Order 13224 pursuant to Japanese foreign exchange laws, and has frozen the U.S. dollar accounts of all Iranian banks. SMBC still maintains three Japanese yen accounts of government-owned Iranian banks, including an account for the Central Bank of Iran, and certain transactions described in this disclosure were conducted through the use of such accounts. These transactions were conducted in accordance with Japanese law, and we do not believe that the transactions were sanctionable under U.S. sanctions that were in effect at the time the transactions occurred. The gross revenue attributable to the accounts of government-owned Iranian banks for the twelve months ended



March 31, 2017, was less than ¥1.4 million, representing less than 0.0001% of SMFG's total interest and fee income. SMFG does not allocate direct costs to interest and fee income and therefore does not calculate net profits with respect to these transactions. SMBC has informed SMFG that it intends to continue to maintain the Iranian accounts described above to the extent permitted under applicable laws and regulations.

As of the date of this annual report, to our knowledge, there is no other activity for the twelve months ended March 31, 2017 that requires disclosure under Section 13(r) of the Securities Exchange Act of 1934.

#### 4.C. ORGANIZATIONAL STRUCTURE

The following chart presents our corporate structure summary at March 31, 2017.

Sumitomo Mitsui Financial Group, Inc.	Commercial Banking	<p>(Domestic) Sumitomo Mitsui Banking Corporation (SMBC) ----- SMBC Trust Bank Ltd. THE MINATO BANK, LTD. Kansai Urban Banking Corporation SMBC Guarantee Co., Ltd. The Japan Net Bank, Limited<sup>(1)</sup> (Foreign) Sumitomo Mitsui Banking Corporation Europe Limited Sumitomo Mitsui Banking Corporation (China) Limited Manufacturers Bank Banco Sumitomo Mitsui Brasileiro S.A. JSC Sumitomo Mitsui Rus Bank PT Bank Sumitomo Mitsui Indonesia Sumitomo Mitsui Banking Corporation Malaysia Berhad PT Bank Tabungan Pensiunan Nasional Tbk<sup>(1)</sup> The Bank of East Asia, Limited<sup>(1)</sup> ACLEDA Bank Plc.<sup>(1)</sup> Vietnam Export Import Commercial Joint Stock Bank<sup>(1)</sup></p>	<p>SMBC's Wholesale Banking Unit SMBC's Retail Banking Unit SMBC's International Banking Unit SMBC's Treasury Unit</p>
	Leasing	<p>(Domestic) Sumitomo Mitsui Finance and Leasing Company, Limited SMFL Capital Company, Limited Sumitomo Mitsui Auto Service Company, Limited<sup>(1)</sup> (Foreign) SMBC Leasing and Finance, Inc. SMBC Aviation Capital Limited</p>	
	Securities	<p>(Domestic) SMBC Nikko Securities Inc. SMBC Friend Securities Co., Ltd. (Foreign) SMBC Nikko Securities America, Inc. SMBC Nikko Capital Markets Limited</p>	
	Consumer Finance	<p>(Domestic) Sumitomo Mitsui Card Company, Limited (Credit card) Cedyna Financial Corporation (Credit card and consumer credit) SMBC Consumer Finance Co., Ltd. (Consumer lending) Mobot Co., LTD. (Consumer lending) SMM Auto Finance, Inc. (Automobile sale financing) SMBC Finance Service Co., Ltd. (Collecting agent and factoring) POCKET CARD CO., LTD.<sup>(1)</sup> (Credit card)</p>	
	Others	<p>(Domestic) The Japan Research Institute, Limited (System development, data processing, management consulting and economic research) Sumitomo Mitsui Asset Management Company, Limited (Investment advisory and investment trust management) SAKURA KCS Corporation (System engineering and data processing) Financial Link Co., Ltd. (Data processing service and consulting) SMBC Venture Capital Co., Ltd. (Venture capital) SMBC Consulting Co., Ltd. (Management consulting and information services) Japan Pension Navigator Co., Ltd. (Operational management of defined contribution pension plans) JSOL Corporation<sup>(1)</sup> (System development and data processing) Sakura Information Systems Co., Ltd.<sup>(1)</sup> (System engineering and data processing) Daiwa SB Investments Ltd.<sup>(1)</sup> (Investment advisory and investment trust management) (Foreign) SMBC Capital Markets, Inc. (Derivatives)</p>	

(1) These companies are our associates.

As the ultimate holding company of the Group, we are responsible for:

- group strategy and management;
- group resource allocation;

- group financial accounting;
- investor relations;
- capital strategy;
- group IT strategy;
- HR management for group executives;
- group risk management, internal control and compliance;
- compensation schemes; and
- efficiently harmonizing our operations on a Group-wide basis.

## Principal Subsidiaries

Our principal subsidiaries at March 31, 2017 are shown in the list below. We consolidate all entities that we control. We control an entity when we are exposed, or have rights, to variable returns from our involvement with the entity and have the ability to affect those returns through our power over the entity.

### *Principal domestic subsidiaries*

Company Name	Proportion of Ownership Interest <sup>(1)</sup>	Proportion of Voting Rights <sup>(1)</sup>	Main Business
	(%)	(%)	
Sumitomo Mitsui Banking Corporation . . . . .	100.0	100.0	Commercial banking
SMBC Trust Bank Ltd. . . . .	100.0	100.0	Trust Banking
THE MINATO BANK, LTD. . . . .	6.0	46.4 <sup>(2)(3)</sup>	Commercial banking
Kansai Urban Banking Corporation . . . . .	59.9	60.1	Commercial banking
SMBC Guarantee Co., Ltd. . . . .	100.0	100.0	Credit guarantee
Sumitomo Mitsui Finance and Leasing Company, Limited . . . . .	60.0	60.0	Leasing
SMFL Capital Company, Limited . . . . .	100.0	100.0	Leasing
SMBC Nikko Securities Inc. . . . .	100.0	100.0	Securities
SMBC Friend Securities Co., Ltd. . . . .	100.0	100.0	Securities
Sumitomo Mitsui Card Company, Limited . . . . .	65.9	65.9	Credit card
Cedyna Financial Corporation . . . . .	100.0	100.0	Credit card and consumer credit
SMBC Consumer Finance Co., Ltd. . . . .	100.0	100.0	Consumer lending
Mobit Co., LTD. . . . .	100.0	100.0	Consumer lending
SMM Auto Finance, Inc. . . . .	51.0	51.0	Automobile sales financing
SMBC Finance Service Co., Ltd. . . . .	100.0	100.0	Collecting agent and factoring
The Japan Research Institute, Limited . . . . .	100.0	100.0	System development, data processing, management consulting and economic research
Sumitomo Mitsui Asset Management Company, Limited . . . . .	60.0	60.0	Investment advisory and investment trust management
SAKURA KCS Corporation . . . . .	50.2	50.2	System engineering and data processing
Financial Link Co., Ltd. . . . .	100.0	100.0	Data processing service and consulting
SMBC Venture Capital Co., Ltd. . . . .	40.0	40.0 <sup>(3)</sup>	Venture capital
SMBC Consulting Co., Ltd. . . . .	100.0	100.0	Management consulting and information services
Japan Pension Navigator Co., Ltd. . . . .	69.7	69.7	Operational management of defined contribution pension plans

- (1) Percentages of proportion of ownership interest and proportion of voting rights have been truncated.
- (2) We have a 6.0% direct holding in THE MINATO BANK, LTD., and can control a further 40.4% of the voting rights held by the Bank's retirement benefit trust under contractual agreements between the Bank and the retirement benefit trust.
- (3) These companies are accounted for as subsidiaries, despite our holdings of less than 50% of the voting rights, because we are able to govern the financial and operating policies of these companies under a statute or an agreement, or by designating the majority of the members of the board of directors.

### *Principal foreign subsidiaries*

<u>Company Name</u>	<u>Country of Incorporation</u>	<u>Proportion of Ownership Interest<sup>(1)</sup></u> (%)	<u>Proportion of Voting Rights<sup>(1)</sup></u> (%)	<u>Main Business</u>
Sumitomo Mitsui Banking Corporation Europe Limited	U.K.	100.0	100.0	Commercial banking
Sumitomo Mitsui Banking Corporation (China) Limited	China	100.0	100.0	Commercial banking
Manufacturers Bank	U.S.A.	100.0	100.0	Commercial banking
Banco Sumitomo Mitsui Brasileiro S.A.	Brazil	100.0	100.0	Commercial banking
JSC Sumitomo Mitsui Rus Bank	Russia	100.0	100.0	Commercial banking
PT Bank Sumitomo Mitsui Indonesia	Indonesia	98.4	98.4	Commercial banking
Sumitomo Mitsui Banking Corporation Malaysia Berhad	Malaysia	100.0	100.0	Commercial banking
SMBC Leasing and Finance, Inc.	U.S.A.	100.0	100.0	Leasing
SMBC Aviation Capital Limited	Ireland	90.0	90.0	Leasing
SMBC Nikko Securities America, Inc.	U.S.A.	100.0	100.0	Securities
SMBC Nikko Capital Markets Limited	U.K.	100.0	100.0	Securities
SMBC Capital Markets, Inc.	U.S.A.	100.0	100.0	Derivatives

(1) Percentages of proportion of ownership interest and proportion of voting rights have been truncated.

#### **4.D. PROPERTY, PLANT AND EQUIPMENT**

The assets for rent we own for the purpose of operating leases mainly consist of aircraft for the leasing business. We own or lease the land and buildings in which we conduct our business. Most of the property that we operate in Japan is owned by us to be used by our branches. In contrast, our international operations are conducted out of leased premises. Our head office building in Marunouchi is leased from a third party. Our largest property is the Bank's East Tower in Marunouchi, with a net carrying value of ¥173 billion, including the land and building, at March 31, 2017.

The following table shows the net carrying amount of our tangible fixed assets at March 31, 2017.

	<u>At March 31, 2017</u> (In millions)
Assets for rent	¥ 1,658,916
Land	514,492
Buildings	370,807
Leased assets	7,187
Others	134,653
Total	<u>¥ 2,686,055</u>

For more information, see Note 12 "Property, Plant and Equipment" to our consolidated financial statements included elsewhere in this annual report.

The total area of land related to our material office and other properties at March 31, 2017 was approximately 714,000 square meters for owned land and approximately 15,000 square meters for leased land.

We are not aware of any material environmental issues that may affect the utilization of our assets.

#### **Item 4A. Unresolved Staff Comments**

None.

#### **Item 5. Operating and Financial Review and Prospects**

*The discussion below should be read together with “Item 3.A. Selected Financial Data” and our consolidated financial statements and related notes included elsewhere in this annual report. Unless otherwise indicated, we present our information on a consolidated basis.*

### **OVERVIEW**

#### **Operating Environment**

Our results of operations and financial condition are significantly affected by developments in Japan as well as the global economy.

For the fiscal year ended March 31, 2017, Japanese gross domestic product (“GDP”) increased by 1.2%, following an increase of 1.2% in the previous fiscal year, based on data published in June 2017 by the Cabinet Office of the Government of Japan.

For the fiscal year ended March 31, 2017, the Japanese economy continued to recover gradually. The quarter-on-quarter growth rate of Japanese GDP was 0.4% for the period from April to June 2016, primarily due to increases in private consumption and private residential investments. For both periods from July to September 2016 and October to December 2016, Japanese GDP increased by 0.3% on a quarter-on-quarter basis, primarily due to an increase in exports of goods and services. Thereafter, for the period from January to March 2017, Japanese GDP increased by 0.3% on a quarter-on-quarter basis.

Private consumption, which accounts for about 57% of Japanese GDP, increased by 0.6% for the fiscal year ended March 31, 2017, reflecting the steady improvement in the employment and income situation. For the periods from April to June 2016 and July to September 2016, private consumption increased, on a quarter-on-quarter basis, by 0.2% and 0.4%, respectively. It was flat on a quarter-on-quarter basis for the period from October to December 2016. Thereafter, for the period from January to March 2017, it increased by 0.3% on a quarter-on-quarter basis.

Private investment, which accounts for about 19% of Japanese GDP, consists of capital investments by business and private residential investments. Capital investments by business increased by 2.5% for the fiscal year ended March 31, 2017, since corporate earnings remained at a high level. For the period from April to June 2016, capital investments by business increased by 1.3% on a quarter-on-quarter basis. Although they decreased by 0.2% on a quarter-on-quarter basis for the period from July to September 2016, they increased by 1.9% on a quarter-on-quarter basis for the period from October to December 2016. Then, for the period from January to March 2017, they increased by 0.6% on a quarter-on-quarter basis. Private residential investments increased by 6.3% for the fiscal year ended March 31, 2017. For the periods from April to June 2016 and July to September 2016, they increased, on a quarter-on-quarter basis, by 3.1% and 2.6%, respectively, primarily due to an increase in construction of houses for rent. For the period from October to December 2016, they increased by 0.2% on a quarter-on-quarter basis. Then, for the period from January to March 2017, they increased by 0.3% on a quarter-on-quarter basis.

Changes in private inventories pulled down Japanese GDP growth by 0.4 percentage points for the fiscal year ended March 31, 2017. For the period from April to June 2016, they contributed 0.3 percentage points to Japanese GDP growth on a quarter-on-quarter basis, but negatively impacted Japanese GDP growth by 0.3 percentage points on a quarter-on-quarter basis for the period from July to September 2016. Thereafter, changes in private inventories pulled down Japanese GDP growth, on a quarter-on-quarter basis, by 0.2 percentage points for the period from October to December 2016 and by 0.1 percentage points for the period from January to March 2017, respectively.

The ratio of exports of goods and services to Japanese GDP was about 16%, and exports of goods and services increased by 3.1% for the fiscal year ended March 31, 2017. For the period from April to June 2016, they decreased by 1.4% on a quarter-on-quarter basis, primarily due to decline in exports to some Asian countries, notably China. However, for the periods from July to September 2016 and October to December 2016, they increased, on a quarter-on-quarter basis, by 1.9% and 3.4%, respectively, primarily due to the recovery of exports to those Asian countries. Thereafter, for the period from January to March 2017, they increased by 2.1% on a quarter-on-quarter basis.

Imports of goods and services were subtracted in calculating Japanese GDP. The ratio of imports of goods and services to Japanese GDP was about 17%, and imports of goods and services decreased by 1.4% for the fiscal year ended March 31, 2017. For the periods from April to June 2016 and July to September 2016, they decreased, on a quarter-on-quarter basis, by 1.1% and 0.2%, respectively. However, for the periods from October to December 2016 and January to March 2017, they increased, on a quarter-on-quarter basis, by 1.3% and 1.4%, respectively.

Industrial production was flat for the first half of the fiscal year ended March 31, 2017, but increased moderately for the second half of the fiscal year.

The employment situation continued to improve during the fiscal year ended March 31, 2017, reflecting a growing labor shortage. The active job openings-to-applicants ratio continued to steadily improve. In addition, the unemployment rate remained relatively low, and it was 2.8% in March 2017, a decrease of 0.4 percentage points from the same month of the previous year, based on the Labor Force Survey by the Statistics Bureau in the Ministry of Internal Affairs and Communications. Compensation of employees increased by 2.2% for the fiscal year ended March 31, 2017, reflecting the current employment situation. This was the second consecutive year that compensation of employees increased.

Further, according to Teikoku Databank, a research institution in Japan, there were approximately 8,200 corporate bankruptcies in Japan during the fiscal year ended March 31, 2017, a decrease of 3.0% from the previous fiscal year, involving approximately ¥1.9 trillion in total liabilities, an increase of 2.1% from the previous fiscal year.

In Japanese financial and capital markets, the uncollateralized overnight call rate, which is the benchmark short-term interest rate, was at around 0% or negative for the first half of the fiscal year ended March 31, 2017. The yield on newly issued Japanese government bonds with a maturity of 10 years, which is the benchmark long-term interest rate, remained negative in the same period. This was due to the introduction of “quantitative and qualitative monetary easing with a negative interest rate” by the BOJ in February 2016 as part of its “quantitative and qualitative monetary easing,” in addition to the ongoing provision of ample funds by the BOJ. Thereafter, the BOJ announced the introduction of a new policy framework, “quantitative and qualitative monetary easing with yield curve control” in September 2016. Under the new policy framework, the BOJ indicated it would purchase Japanese government bonds so that the yield of the 10-year Japanese government bonds would be close to around 0% to control long-term interest rates. In addition, the BOJ would keep short-term interest rates down by maintaining its policy of applying a negative interest rate of minus 0.1% to certain excess reserves of financial institutions held at the BOJ. Under this policy, the uncollateralized overnight call rate was around minus 0.04% and the yield on newly issued Japanese government bonds with a maturity of 10 years was around 0.07% at March 31, 2017.

The Nikkei Stock Average, which is a price-weighted average of 225 stocks listed on the Tokyo Stock Exchange First Section, dropped from ¥16,758.67 at March 31, 2016 to ¥14,952.02 at June 24, 2016, soon after the result of the United Kingdom’s referendum to leave the European Union. It recovered to the ¥19,400 level in December 2016. Thereafter, it was ¥18,909.26 at March 31, 2017.

The yen appreciated against the U.S. dollar from ¥112.43 at March 31, 2016 to ¥100.90 at September 30, 2016, according to the statistical data published by the BOJ. Thereafter, the yen depreciated against the U.S. dollar to the ¥118 level in December 2016. The yen exchange rate against the U.S. dollar at March 31, 2017 was ¥111.80.

As for the global economy for the fiscal year ended March 31, 2017, economies of developed countries such as the U.S. continued to recover gradually, despite a slowdown in the pace of growth of emerging economies.

For the fiscal year ended March 31, 2017, the U.S. economy continued to recover, supported by robust private consumption, reflecting the gradual improvement in the employment and income situation. The European economy continued to recover gradually for the fiscal year ended March 31, 2017, although corporate sector was relatively weak. On the other hand, the growth momentum in China and other Asian economies continued to be slow for the fiscal year ended March 31, 2017.

In addition to economic factors and conditions, we expect that our results of operations and financial condition will be significantly affected by regulatory trends.

To address perceived weaknesses in financial regulation revealed by the global financial crisis, regulatory authorities in Japan and foreign countries have been and may continue taking significant steps to enhance regulation of the financial sector. The BCBS and other international bodies are leading efforts to formulate enhanced regulations, including in the areas of capital adequacy and liquidity. The BCBS published the Basel III rules text in December 2010, reflecting agreement on global regulatory standards on capital adequacy and liquidity of internationally active banks. The new rules started to be phased in on January 1, 2013 and will be fully applied from January 2019. To reflect the principal risk-weighted capital measures of the Basel III rules text, the FSA has promulgated new capital adequacy requirements which started to be phased in on March 31, 2013 and will be fully applied from March 31, 2019. For a more detailed description of the capital adequacy rules based on Basel III, see “Item 4.B. Business Overview—Regulations in Japan.”

In the United States, the Dodd-Frank Act which was enacted in July 2010, provides a broad framework for significant regulatory changes across most areas of U.S. financial regulation. The Dodd-Frank Act addresses, among other issues, systemic risk oversight, bank capital standards, the resolution of failing systemically significant U.S. financial institutions, OTC derivatives, the ability of banking entities to engage in proprietary trading activities and invest in hedge funds and private equity funds, consumer and investor protection, hedge fund registration, and securitization. For a more detailed description of the Dodd-Frank Act, see “Item 4.B. Business Overview—Regulations in the United States.”

For a more detailed description of regulations to which we are subject, risks associated with regulatory development and our management policy under this environment, see “Item 3.D. Risk Factors—Risks Related to Our Business,” “Item 4.B. Business Overview—Regulations in Japan, Regulations in the United States, Regulations in Other Jurisdictions and Description of Operations and Principal Activities—Management Policies.”

## **Factors Affecting Results of Operation**

### ***Income (Loss)***

We have three principal sources of operating income: net interest income, net fee and commission income, and net income from trading/investment securities.

*Net Interest Income.* Net interest income, or the difference between interest income and interest expense, is determined by:

- the amount of interest-earning assets and interest-bearing liabilities;
- the interest spread;

- the general level of interest rates; and
- the proportion of interest-earning assets to interest-bearing liabilities.

Our principal interest-earning assets are loans and advances, investment securities, and deposits with banks. Our principal interest-bearing liabilities are deposits, borrowings and debt securities in issue. The interest income and expense on trading assets and liabilities and financial assets at fair value through profit or loss are not included in net interest income. Our net interest income is earned mainly by the Bank. The Bank controls its exposure to interest rate fluctuations through asset and liability management operations.

The Bank, like other banks in Japan, makes most domestic loans based on a short-term interest rate, the TIBOR, or a short-term prime rate, which are generally intended to reflect its cost of short-term yen funding and significantly affected by the monetary policy of the BOJ.

In February 2012, the BOJ clarified its monetary policy stance to enhance monetary easing, with the aim of achieving the goal of 1% year-on-year rate of increase in the consumer price index (“CPI”). Moreover, in January 2013, the BOJ decided to set the price stability target at 2% in terms of the year-on-year rate of increase in the CPI and pursue aggressive monetary easing. In order to achieve the price stability target at the earliest possible time, the BOJ announced in April 2013 the introduction of “quantitative and qualitative monetary easing” including doubling the monetary base and the amounts outstanding of Japanese government bonds as well as exchange-traded funds in two years. In addition, the BOJ announced on October 31, 2014 the expansion of its “quantitative and qualitative monetary easing” and on December 18, 2015 the introduction of “supplementary measures for quantitative and qualitative monetary easing.” On January 29, 2016, the BOJ announced the introduction of “quantitative and qualitative monetary easing with a negative interest rate” (“negative interest rate policy”), and began to implement a negative interest rate policy on February 16, 2016. Under the negative interest rate policy, the BOJ has adopted a multi-tier system where the outstanding balance of each financial institution’s current account at the BOJ is divided into three tiers, to each of which a positive interest rate, a zero interest rate and a negative interest rate of minus 0.1 percent are applied, respectively. After these policy interest rate changes, the Bank lowered its ordinary deposit rate by 0.019 percentage points from 0.02% to 0.001% in February 2016. Thereafter, on September 21, 2016, the BOJ announced the introduction of a new policy framework, “quantitative and qualitative monetary easing with yield curve control.” Under the new policy framework, the BOJ indicated it would purchase Japanese government bonds so that the yield of the 10-year Japanese government bonds would be close to around 0% to control long-term interest rates. In addition, the BOJ would keep short-term interest rates down by maintaining its policy of applying a negative interest rate of minus 0.1% to certain excess reserves of financial institutions held at the BOJ.

The following table sets forth the Bank’s short-term prime rate, three-month TIBOR, ordinary deposit rate, long-term prime rate and ten-year swap rate, at the dates indicated:

	At March 31,		
	2017	2016	2015
Short-term prime rate . . . . .	1.475%	1.475%	1.475%
Three-month TIBOR . . . . .	0.057	0.099	0.172
Ordinary deposit rate . . . . .	0.001	0.001	0.020
Long-term prime rate . . . . .	0.950	0.950	1.150
Ten-year swap rate . . . . .	0.265	0.149	0.576

It is difficult to earn a wide interest spread when interest rates are at a low level, as they currently are in Japan. When interest rates rise from extremely low levels, interest spreads at commercial banks generally increase. However, interest spreads may temporarily decrease immediately after an increase in interest rates because it may take time for banks to increase lending rates correspondingly, in contrast to their funding rates. After an adjustment period, lending rates generally also increase and banks are able to secure a wider interest spread than in a low interest rate environment. Conversely, interest spreads may temporarily increase



immediately after a decrease in interest rates because it may take time for banks to decrease lending rates correspondingly, in contrast to their funding rates. After an adjustment period, lending rates generally also decrease and banks generally are not able to maintain a wide interest spread.

*Net Fee and Commission Income.* We earn fees and commissions from a variety of services. The primary components of the Bank's net fee and commission income are fees and commissions related to money remittances and transfers, investment trusts, loans (such as loan commitment fees and loan arrangement fees), securities transactions (such as bond trustee fees and bond recording agency fees) and guarantees and acceptances. Other fees and commissions include fees from investment banking and electronic banking.

In addition, we earn a significant amount of fees and commissions from our credit card business, conducted through Sumitomo Mitsui Card and Cedyne, and from our securities business, conducted through SMBC Nikko Securities and SMBC Friend Securities. The principal components of Sumitomo Mitsui Card's and Cedyne's fees and commissions are membership fees from retailers and annual cardholder membership fees, while those of SMBC Nikko Securities' and SMBC Friend Securities' fees and commissions are subscription and agent commissions from investment trusts and underwriting commissions.

The principal factors affecting fees and commissions are the demand for the services provided, the fees charged for those services and fees charged by competitors for similar services. The volume of services provided also affects profitability, as our fee businesses have significant economies of scale. In order to diversify sources of revenue and enhance return on assets, we are expanding our fees and commissions businesses, including sales of investment trusts and life insurance products, and investment banking businesses.

*Net Income from Trading/Investment Securities.* We undertake significant trading activities involving a variety of financial instruments, including derivatives. Our income from these activities is subject to volatility caused by, among other things, changes in interest rates, foreign exchange rates, equity prices or other market variables. Any unexpected change in interest rates could affect the fair value of our interest rate derivative positions and our net income from trading activities. Net trading income consists of margins made on market-making and our customer business as well as changes in fair value of trading assets and liabilities and derivative financial instruments. It also includes net interest and dividend income on these instruments.

We have substantial investments in debt securities as available-for-sale financial assets. In particular, Japanese government bonds represent a significant part of our bond portfolio. We also own debt securities denominated in foreign currencies, principally the U.S. dollars. We also have investments in equity securities as available-for-sale financial assets, which include our strategic investments in stocks issued by our customers. Net investment income includes the gains and losses arising from the sales or redemptions of available-for-sale financial assets and the dividend income earned from available-for-sale equity instruments. Increases in interest rates or declines in equity prices could substantially decrease the fair value of our available-for-sale financial assets.

Operating income from other than these three principal sources is included in "Net income from financial assets at fair value through profit or loss" or "Other income." Net income from financial assets at fair value through profit or loss includes gains and losses arising from sales and the change in the fair value of the instruments such as hybrid instruments classified as financial assets at fair value through profit or loss. It also includes interest and dividend income on these instruments. Other income consists primarily of income from operating leases conducted by SMFL and income related to IT solution services.

## ***Expenses***

***Impairment Charges on Financial Assets.*** Our impairment charges are recorded primarily due to impairment on loans and advances and on investment securities.

Impairment charges on loans and advances are affected by the economic environment and financial conditions of borrowers. During periods of economic slowdown, corporate and individual borrowers are generally more likely to suffer credit rating downgrades, or become delinquent or default on their borrowings. The slowdown in the domestic or global economy may increase credit costs relating to a wide range of industries.

Declines in market prices for domestic and foreign investment securities may result in our recording impairment charges. We assess at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity instruments classified as available-for-sale, a significant or prolonged decline in the fair value of the instrument below its cost is also considered to be such evidence in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the cost and the current fair value less any impairment charges on that financial asset previously recognized in profit or loss, is removed from equity and recognized in profit or loss.

***General and Administrative Expenses.*** General and administrative expenses consist primarily of personnel expenses (salaries and related expenses), depreciation and amortization expenses, and other expenses (rent and lease expenses, premiums for deposit insurance, publicity and advertising expenses, and communication expenses).

***Other Expenses.*** Other expenses consist primarily of cost of operating leases, costs related to IT solution services and IT systems, losses on disposal of property, plant and equipment, and other intangible assets, and impairment losses of property, plant and equipment.

## ***Unrealized Gains or Losses on Investment Securities Portfolio***

Changes in the fair value of domestic and foreign investment securities result in an increase or a decrease in unrealized gains or losses on available-for-sale financial assets. Unrealized gains or losses arising from changes in the fair value of the investments in these securities are recognized directly in equity, until they are derecognized or impaired.

Most of our domestic equity instruments consist of publicly traded Japanese stocks. The Nikkei Stock Average decreased by 12.7% from ¥19,206.99 at March 31, 2015, to ¥16,758.67 at March 31, 2016, and increased by 12.8% to ¥18,909.26 at March 31, 2017. At March 31, 2017, we had net unrealized gains on domestic equity securities of ¥2,696,122 million, an increase of ¥347,234 million from ¥2,348,888 million at March 31, 2016. For more information, see “Item 5.A. Operating Results—Financial Condition—Investment Securities.”

## ***Strengthening of Equity Capital***

In response to the imposition of more stringent regulatory capital requirements, we have been taking a proactive approach to managing our risk-weighted capital ratio by focusing on increasing qualifying capital, including by building up our retained earnings, identifying risks, and controlling risk-weighted assets.

## ***Foreign Currency Fluctuations***

The average exchange rate used to convert dollars to yen in the consolidated financial statements included elsewhere in this annual report for the fiscal year ended March 31, 2017 was ¥108.36 per \$1.00, compared to the previous fiscal year’s average exchange rate of ¥120.16 per \$1.00. The percentage of revenue we earned from our foreign operations for the fiscal years ended March 31, 2017 and 2016 was 30% and 23%, respectively. For more information, see “Item 4.B. Business Overview—Revenues by Region.”

## **Critical Accounting Estimates and Judgments**

Our financial position and results of operations are influenced by estimates and judgments that management employs in the course of preparation of our consolidated financial statements. We identified the following areas of significant accounting policies to be particularly sensitive in terms of estimates and judgments made by management. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable.

### ***Allowance for Loan Losses***

Allowance for loan losses represents management's estimate of the losses incurred in the loan portfolios at the end of each reporting period. Management exercises judgments in making assumptions and estimations when calculating the allowance for loan losses on both individually and collectively assessed loans.

The allowance for loan losses for individually significant impaired loans is estimated by management based on the expected future cash flows, taking into account factors such as historical loss information, the appropriateness of the borrower's business plan or operational improvement plan, the status of progress of its plan, the overall support from financial institutions, and the realizable value of any collateral held. The allowance for loan losses is the difference between the carrying amount of a loan and the discounted present value of expected future cash flows that are estimated by management. The actual future cash flows may differ from the estimates by management and consequently may cause actual loan losses to differ from the reported allowance for loan losses.

The allowance for loan losses for impaired loans that are not individually significant and non-impaired loans is collectively calculated based on the historical loss experience for loans which have similar credit risk characteristics to those in the current loan portfolio using statistical methods. These statistical methods are subject to estimation uncertainty. In normal circumstances, the use of statistical methods evidenced by historical information provides the most objective methodology in assessing inherent losses on loans with similar credit risk characteristics. However, in certain circumstances, the use of historical loss experience alone may not be representative of current loss experiences and as a result it may provide less relevant information about the loss incurred in a given portfolio at the end of the reporting period, particularly in a situation where there have been changes in economic conditions. In these circumstances, we make a judgment to update the historical loss experience based on the most recent loss information, taking into account, among others, the effect of the current economic environment. To estimate the allowance for loan losses for non-impaired loans, which reflects incurred but not yet identified losses for the period between the impairment occurring and the loss being identified, management develops assumptions and methodologies to estimate the loss identification period.

Management estimates and judgments may change from time to time as the economic environment changes or new information becomes available. Changes in these estimates and judgments will result in a different allowance for loan losses and may have a direct impact on impairment charges. Impairment charges on loans and advances amounting to ¥141,457 million, ¥118,750 million and ¥79,552 million were recognized for the fiscal years ended March 31, 2017, 2016 and 2015, respectively.

### ***Fair Value of Financial Instruments***

Some of our financial instruments are measured at fair value with changes in fair value recognized in profit or loss, such as trading assets and liabilities, financial assets at fair value through profit or loss, and derivative financial instruments. Available-for-sale financial assets are also measured at fair value with changes in fair value reported in other comprehensive income.

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Our financial assets and liabilities measured at fair value are mostly valued based on quoted prices in active markets, or using valuation

techniques that incorporate inputs, other than quoted market prices, that are observable either directly or indirectly in the market, including dealers' quotes. We principally use valuation techniques that are commonly used by market participants to price the instruments. To the extent practical, the valuation models make maximum use of observable data. However, for certain financial assets and liabilities, the fair values are measured by using valuation techniques with significant unobservable inputs. In such cases, significant management estimates are made, resulting in a less objective measurement of fair value.

The risk management departments in each subsidiary regularly review significant valuation methodologies and recalibrate model parameters and inputs, both observable and unobservable, in an effort to ensure an appropriate estimation of fair value has been made. Where significant management judgments are required in valuation, we establish a valuation control framework to validate the valuation models and fair values calculated based on such valuation models. Under the framework, the accounting department is responsible for ensuring that the accounting policies and procedures to determine the fair values are in compliance with the relevant accounting standards.

If the fair value at the trade date, which is measured using a valuation technique with significant unobservable inputs, differs from the transaction price, any gain or loss on the trade date is adjusted to be deferred. Management judgment is required to determine whether significant unobservable inputs exist in the valuation technique.

The financial assets and liabilities are classified into one of three levels within a fair value hierarchy based on the inputs used in the fair value measurement. The three levels of the fair value hierarchy are as follows:

- *Level 1.* Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- *Level 2.* Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- *Level 3.* Significant unobservable inputs for the asset or liability.

Management judgment is involved in determining the level of hierarchy to which each financial instrument should be categorized and in periodical assessments of market liquidity for inputs and price transparency.

In addition to the fair value hierarchy disclosure, we provide a sensitivity analysis of the impact on the Level 3 financial instruments carried at fair value by using reasonably possible alternatives for the unobservable parameters in Note 43 "Fair Value of Financial Assets and Liabilities" to our consolidated financial statements included elsewhere in this annual report. The determination of reasonably possible alternatives requires significant management judgment.

#### ***Impairment of Available-for-sale Financial Assets***

Available-for-sale financial assets are measured at fair value with changes in fair value reported in available-for-sale financial assets reserve as a separate component of equity until the financial assets are either derecognized or become impaired. If there is objective evidence of impairment as a result of loss events which have an impact on the estimated future cash flows of the financial assets that can be reliably estimated, the cumulative loss previously recognized in equity is removed and recognized in profit or loss as an impairment charge.

We exercise judgment in determining whether there is objective evidence of occurrence of loss events which result in a decrease in estimated future cash flows. The estimation of future cash flows also requires judgment. In the assessment of impairment of available-for-sale equity instruments, we also consider whether there has been a significant or prolonged decline in fair value below their cost. The determination of what is a significant or prolonged decline requires management judgment.

Impairment may occur when there is objective evidence of deterioration in the financial conditions of the investee, industry and sector performance, or changes in operating and financing cash flows. The determination of impairment in this respect also includes significant management judgment.

Management estimates and judgments may change from time to time upon future events that may or may not occur and changes in these estimates and judgments could adversely affect the carrying amounts of available-for-sale financial assets. Impairment charges on available-for-sale financial assets reclassified from equity to profit or loss totaled ¥71,510 million, ¥29,606 million and ¥10,586 million for the fiscal years ended March 31, 2017, 2016 and 2015, respectively.

### ***Impairment of Goodwill***

Goodwill is tested for impairment at least annually and whenever events or changes in circumstances indicate that it may be impaired. The first step of the impairment test is identifying the cash-generating units (“CGUs”), which represent the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill is then allocated to the CGUs, considering how the goodwill is recognized and other relevant factors.

In the impairment test, the carrying amount of the CGU to which goodwill is allocated is compared against its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. Such recoverable amounts are determined based on significant management judgments and assumptions.

We determine the recoverable amount using the estimated future cash flows, pre-tax discount rates, growth rates and other factors. The estimation of future cash flows inherently reflects management judgments, even though such forecasts are prepared taking into account actual past performance and external economic data. The pre-tax discount rates and growth rates may be significantly affected by market interest rates or other market conditions, which are beyond management’s control, and therefore significant management judgments are made to determine these assumptions.

These management judgments are made based on the facts and circumstances at the time of the impairment test, and may vary depending on the situation and time. Changes in management judgments may result in different impairment test results and different impairment losses recognized. For the fiscal years ended March 31, 2017, 2016 and 2015, impairment losses on goodwill were ¥74,616 million, ¥1,124 million and nil, respectively.

### ***Provision for Interest Repayment***

Provision for interest repayment represents management’s estimate of future claims for the refund of gray zone interest, taking into account historical experience such as the number of customer claims for a refund, the amount of repayments and the characteristics of customers, and the length of the period during which claims are expected to be received in the future.

Management estimates and judgments may change from time to time as the legal environment and market conditions change or new information becomes available. Changes in these estimates and judgments could affect the balance of provision for interest repayment. Provision for interest repayment is recorded in provisions as a liability, and it totaled ¥157,333 million and ¥229,422 million at March 31, 2017 and 2016, respectively.

### ***Retirement Benefits***

We have defined benefit plans such as defined benefit pension plans and lump-sum severance indemnity plans. The present value of the defined benefit obligation is calculated based on actuarial valuations that are dependent upon a number of assumptions, including discount rates, mortality rates and future salary (benefit) increases. The discount rates are equivalent to market yields of AA credit-rated corporate bonds that have terms

to maturity approximating those of the related obligations. Future mortality rates are based on the official mortality table generally used for actuarial assumptions in Japan. Other assumptions used for the calculation of the defined benefit obligation are based on historical records. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. While we believe that these assumptions are appropriate, any change in these assumptions will impact actuarial gains and losses, as well as the present value of the defined benefit obligations and the net retirement benefit expense for each period. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in the year, and return on plan assets excluding interest income are recognized in other comprehensive income and are never reclassified to profit or loss.

The difference between the fair value of the plan assets and the present value of the defined benefit obligation at the end of the reporting period is recognized as assets and liabilities in the consolidated statement of financial position. When this calculation for each plan results in a benefit to us, the recognized asset is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to us, if it is realizable during the life of the plan or on settlement of the plan obligation. The net total of assets and liabilities in the consolidated statement of financial position amounted to net assets of ¥192,772 million and ¥177,112 million at March 31, 2017 and 2016, respectively.

#### ***Deferred Tax Assets***

We recognize deferred tax assets relating to tax losses carried forward and deductible temporary differences, only to the extent that it is probable that future taxable profit will be available against which the tax losses carried forward and the deductible temporary differences can be utilized. This assessment requires significant management judgments and assumptions. Future taxable profit is estimated based on, among other relevant factors, forecasted results of operations, which are based on historical financial performance and the business plans that management believes to be prudent and feasible. While we carefully assess the realization of tax losses carried forward and deductible temporary differences, the actual taxable profit in the future may be less than the forecast. The deferred tax assets amounted to ¥81,961 million and ¥115,314 million in the consolidated statement of financial position at March 31, 2017 and 2016, respectively, while the net total of deferred tax assets and liabilities amounted to net liabilities of ¥238,240 million and ¥220,574 million at March 31, 2017 and 2016, respectively.

#### **New and Amended Accounting Standards and Recent Accounting Pronouncements**

See “New and Amended Accounting Standards Adopted by the SMFG Group” and “Recent Accounting Pronouncements” under Note 2 “Summary of Significant Accounting Policies” to our consolidated financial statements included elsewhere in this annual report.

#### **5.A. OPERATING RESULTS**

Under the economic and financial circumstances described in “Item 5. Operating and Financial Review and Prospects—Overview—Operating Environment,” we made a profit through our commercial banking and other financial services businesses. Our total operating income decreased by ¥340,331 million from ¥3,688,226 million for the fiscal year ended March 31, 2016 to ¥3,347,895 million for the fiscal year ended March 31, 2017, primarily due to a decrease in net trading income. Our net profit decreased by ¥212,236 million from ¥952,822 million for the fiscal year ended March 31, 2016 to ¥740,586 million for the fiscal year ended March 31, 2017, due to the decrease in total operating income described above and an increase in impairment charges on financial assets, which were partially offset by a decrease in income tax expense.

Our total assets increased by ¥10,978,329 million from ¥180,172,652 million at March 31, 2016 to ¥191,150,981 million at March 31, 2017, primarily due to increases in cash and deposits with banks and loans and advances.

Our total liabilities increased by ¥10,133,145 million from ¥169,130,553 million at March 31, 2016 to ¥179,263,698 million at March 31, 2017, primarily due to increases in deposits, repurchase agreements and cash collateral on securities lent and borrowings.

Our total equity increased by ¥845,184 million from ¥11,042,099 million at March 31, 2016 to ¥11,887,283 million at March 31, 2017, primarily due to an increase in retained earnings and a decrease in treasury stock.

## Operating Results

The following table presents information as to our income, expenses and net profit for the fiscal years ended March 31, 2017, 2016 and 2015.

	<b>For the fiscal year ended March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(In millions, except per share data)</b>		
Interest income . . . . .	¥1,900,261	¥1,872,584	¥1,782,621
Interest expense . . . . .	502,338	431,101	371,107
Net interest income . . . . .	1,397,923	1,441,483	1,411,514
Fee and commission income . . . . .	1,066,412	1,031,680	1,002,766
Fee and commission expense . . . . .	181,573	131,381	129,253
Net fee and commission income . . . . .	884,839	900,299	873,513
Net trading income . . . . .	183,963	462,682	127,759
Net income from financial assets at fair value through profit or loss . . . .	2,018	12,260	22,678
Net investment income . . . . .	305,327	375,229	371,064
Other income . . . . .	573,825	496,273	525,905
<b>Total operating income</b> . . . . .	<b>3,347,895</b>	<b>3,688,226</b>	<b>3,332,433</b>
Impairment charges on financial assets . . . . .	212,967	148,356	90,138
<b>Net operating income</b> . . . . .	<b>3,134,928</b>	<b>3,539,870</b>	<b>3,242,295</b>
General and administrative expenses . . . . .	1,752,135	1,706,263	1,621,897
Other expenses . . . . .	531,759	538,963	505,614
<b>Operating expenses</b> . . . . .	<b>2,283,894</b>	<b>2,245,226</b>	<b>2,127,511</b>
Share of post-tax profit of associates and joint ventures . . . . .	29,318	31,056	18,124
<b>Profit before tax</b> . . . . .	<b>880,352</b>	<b>1,325,700</b>	<b>1,132,908</b>
Income tax expense . . . . .	139,766	372,878	409,947
<b>Net profit</b> . . . . .	<b>¥ 740,586</b>	<b>¥ 952,822</b>	<b>¥ 722,961</b>
Profit attributable to:			
Shareholders of Sumitomo Mitsui Financial Group, Inc. . . . .	¥ 627,870	¥ 843,920	¥ 614,070
Non-controlling interests . . . . .	104,787	106,129	108,891
Other equity instruments holders . . . . .	7,929	2,773	—
Earnings per share:			
Basic . . . . .	¥ 458.56	¥ 617.25	¥ 449.13
Diluted . . . . .	458.18	616.83	448.86

*Fiscal Year Ended March 31, 2017 Compared to Fiscal Year Ended March 31, 2016*

Total operating income decreased by ¥340,331 million, or 9%, from ¥3,688,226 million for the fiscal year ended March 31, 2016 to ¥3,347,895 million for the fiscal year ended March 31, 2017, primarily due to a decrease in net trading income of ¥278,719 million. In addition, due to an increase in impairment charges on financial assets, net operating income also decreased by ¥404,942 million from ¥3,539,870 million for the fiscal year ended March 31, 2016 to ¥3,134,928 million for the fiscal year ended March 31, 2017.

Net profit decreased by ¥212,236 million from ¥952,822 million for the fiscal year ended March 31, 2016 to ¥740,586 million for the fiscal year ended March 31, 2017, as a result of the decrease in net operating income described above, which was partially offset by a decrease in income tax expense.

*Fiscal Year Ended March 31, 2016 Compared to Fiscal Year Ended March 31, 2015*

Total operating income increased by ¥355,793 million, or 11%, from ¥3,332,433 million for the fiscal year ended March 31, 2015 to ¥3,688,226 million for the fiscal year ended March 31, 2016, primarily due to increases in net trading income of ¥334,923 million. Although impairment charges on financial assets increased, net operating income also increased by ¥297,575 million from ¥3,242,295 million for the fiscal year ended March 31, 2015 to ¥3,539,870 million for the fiscal year ended March 31, 2016, due to the increase in total operating income described above.

Net profit increased by ¥229,861 million from ¥722,961 million for the fiscal year ended March 31, 2015 to ¥952,822 million for the fiscal year ended March 31, 2016, as a result of the increase in net operating income described above, which was partially offset by increases in general and administrative expenses and other expenses.



### Net Interest Income

The following tables show the average balances of our statement of financial position items, related interest income, interest expense, net interest income and average rates for the fiscal years ended March 31, 2017, 2016 and 2015.

	For the fiscal year ended March 31,								
	2017			2016			2015		
	Average balance <sup>(3)</sup>	Interest income	Average rate	Average balance <sup>(3)</sup>	Interest income	Average rate	Average balance <sup>(3)</sup>	Interest income	Average rate
	(In millions, except percentages)								
<b>Interest-earning assets:</b>									
Interest-earning deposits with other banks:									
Domestic offices . . . . .	¥ 762,460	¥ 4,099	0.54%	¥ 768,976	¥ 4,771	0.62%	¥ 741,738	¥ 4,548	0.61%
Foreign offices . . . . .	4,617,409	41,671	0.90%	5,786,836	35,701	0.62%	5,892,983	37,348	0.63%
Total . . . . .	5,379,869	45,770	0.85%	6,555,812	40,472	0.62%	6,634,721	41,896	0.63%
Call loans and bills bought:									
Domestic offices . . . . .	76,227	467	0.61%	147,992	861	0.58%	226,409	1,177	0.52%
Foreign offices . . . . .	1,303,429	11,598	0.89%	967,442	20,967	2.17%	972,643	17,429	1.79%
Total . . . . .	1,379,656	12,065	0.87%	1,115,434	21,828	1.96%	1,199,052	18,606	1.55%
Reverse repurchase agreements and cash collateral on securities borrowed:									
Domestic offices . . . . .	7,443,668	12,151	0.16%	6,675,810	10,763	0.16%	4,766,205	7,875	0.17%
Foreign offices . . . . .	1,009,997	17,450	1.73%	741,623	11,248	1.52%	726,427	9,146	1.26%
Total . . . . .	8,453,665	29,601	0.35%	7,417,433	22,011	0.30%	5,492,632	17,021	0.31%
Held-to-maturity investments <sup>(1)</sup> :									
Domestic offices . . . . .	1,809,777	6,756	0.37%	2,964,539	12,880	0.43%	4,086,502	20,509	0.50%
Total . . . . .	1,809,777	6,756	0.37%	2,964,539	12,880	0.43%	4,086,502	20,509	0.50%
Available-for-sale financial assets <sup>(1)</sup> :									
Domestic offices . . . . .	7,477,480	41,561	0.56%	10,878,176	38,701	0.36%	10,385,945	32,703	0.31%
Foreign offices . . . . .	2,945,084	39,031	1.33%	2,425,249	33,331	1.37%	2,250,294	29,282	1.30%
Total . . . . .	10,422,564	80,592	0.77%	13,303,425	72,032	0.54%	12,636,239	61,985	0.49%
Loans and advances <sup>(2)</sup> :									
Domestic offices . . . . .	66,948,344	1,082,058	1.62%	63,177,259	1,091,538	1.73%	62,005,587	1,099,119	1.77%
Foreign offices . . . . .	25,298,515	643,419	2.54%	26,272,983	611,823	2.33%	23,292,666	523,485	2.25%
Total . . . . .	92,246,859	1,725,477	1.87%	89,450,242	1,703,361	1.90%	85,298,253	1,622,604	1.90%
Total interest-earning assets:									
Domestic offices . . . . .	84,517,956	1,147,092	1.36%	84,612,752	1,159,514	1.37%	82,212,386	1,165,931	1.42%
Foreign offices . . . . .	35,174,434	753,169	2.14%	36,194,133	713,070	1.97%	33,135,013	616,690	1.86%
Total . . . . .	¥119,692,390	¥1,900,261	1.59%	¥120,806,885	¥1,872,584	1.55%	¥115,347,399	¥1,782,621	1.55%

For the fiscal year ended March 31,

	2017			2016			2015		
	Average balance <sup>(3)</sup>	Interest expense	Average rate	Average balance <sup>(3)</sup>	Interest expense	Average rate	Average balance <sup>(3)</sup>	Interest expense	Average rate
(In millions, except percentages)									
<b>Interest-bearing liabilities:</b>									
Deposits:									
Domestic									
offices . . . . .	¥ 82,738,015	¥ 35,881	0.04%	¥ 78,458,170	¥ 48,032	0.06%	¥ 74,397,836	¥ 49,356	0.07%
Foreign offices . . .	23,383,002	213,147	0.91%	22,838,530	154,280	0.68%	21,263,919	116,211	0.55%
Total . . . . .	106,121,017	249,028	0.23%	101,296,700	202,312	0.20%	95,661,755	165,567	0.17%
Call money and bills sold:									
Domestic									
offices . . . . .	603,065	92	0.02%	2,199,407	1,524	0.07%	2,040,724	1,504	0.07%
Foreign offices . . .	618,949	5,194	0.84%	663,310	4,059	0.61%	877,127	2,510	0.29%
Total . . . . .	1,222,014	5,286	0.43%	2,862,717	5,583	0.20%	2,917,851	4,014	0.14%
Repurchase agreements and cash collateral on securities lent:									
Domestic									
offices . . . . .	7,149,638	5,616	0.08%	7,172,312	8,582	0.12%	5,584,584	6,091	0.11%
Foreign offices . . .	3,081,806	15,007	0.49%	2,009,593	6,523	0.32%	1,455,125	3,829	0.26%
Total . . . . .	10,231,444	20,623	0.20%	9,181,905	15,105	0.16%	7,039,709	9,920	0.14%
Borrowings:									
Domestic									
office . . . . .	8,113,368	58,772	0.72%	10,251,890	56,353	0.55%	9,170,288	54,915	0.60%
Foreign offices . . .	847,353	21,063	2.49%	823,446	15,850	1.92%	790,516	16,122	2.04%
Total . . . . .	8,960,721	79,835	0.89%	11,075,336	72,203	0.65%	9,960,804	71,037	0.71%
Debt securities in issue:									
Domestic									
offices . . . . .	8,320,124	130,613	1.57%	7,999,705	120,285	1.50%	7,000,273	109,960	1.57%
Foreign offices . . .	2,193,406	16,324	0.74%	3,044,714	14,887	0.49%	2,819,687	9,829	0.35%
Total . . . . .	10,513,530	146,937	1.40%	11,044,419	135,172	1.22%	9,819,960	119,789	1.22%
Other interest-bearing liabilities:									
Domestic									
offices . . . . .	95,660	579	0.61%	93,104	676	0.73%	96,873	731	0.75%
Foreign offices . . .	3,531	50	1.42%	1,960	50	2.55%	3,025	49	1.62%
Total . . . . .	99,191	629	0.63%	95,064	726	0.76%	99,898	780	0.78%
Total interest-bearing liabilities:									
Domestic									
offices . . . . .	107,019,870	231,553	0.22%	106,174,588	235,452	0.22%	98,290,578	222,557	0.23%
Foreign offices . . .	30,128,047	270,785	0.90%	29,381,553	195,649	0.67%	27,209,399	148,550	0.55%
Total . . . . .	¥137,147,917	¥ 502,338	0.37%	¥135,556,141	¥ 431,101	0.32%	¥125,499,977	¥ 371,107	0.30%
<b>Net interest income and interest rate spread . . . .</b>		<u>¥1,397,923</u>	<u>1.22%</u>		<u>¥1,441,483</u>	<u>1.23%</u>		<u>¥1,411,514</u>	<u>1.25%</u>

- (1) Taxable investment securities and non-taxable investment securities are not disclosed separately because the aggregate effect of these average balances and interest income would not be material. In addition, the yields on tax-exempt obligations have not been calculated on a tax equivalent basis because the effect of such calculation would not be material.
- (2) Loans and advances include impaired loans and advances. The amortized portion of net loan origination fees (costs) is included in interest income on loans and advances.
- (3) Average balances are generally based on a daily average. Weekly, month-end or quarter-end averages are used for certain average balances where it is not practical to obtain applicable daily averages. The allocations of amounts between domestic and foreign are based on the location of the office.

The following tables show changes in our interest income, interest expense and net interest income based on changes in volume and changes in rate for the fiscal year ended March 31, 2017 compared to the fiscal year ended March 31, 2016, and those for the fiscal year ended March 31, 2016 compared to the fiscal year ended March 31, 2015.

	Fiscal year ended March 31, 2017 compared to fiscal year ended March 31, 2016 Increase / (decrease)			Fiscal year ended March 31, 2016 compared to fiscal year ended March 31, 2015 Increase / (decrease)		
	Volume	Rate	Net change	Volume	Rate	Net change
	(In millions)					
<b>Interest income:</b>						
Interest-earning deposits with other banks:						
Domestic offices . . . . .	¥ (40)	¥ (632)	¥ (672)	¥ 168	¥ 55	¥ 223
Foreign offices . . . . .	(8,263)	14,233	5,970	(663)	(984)	(1,647)
Total . . . . .	(8,303)	13,601	5,298	(495)	(929)	(1,424)
Call loans and bills bought:						
Domestic offices . . . . .	(436)	42	(394)	(443)	127	(316)
Foreign offices . . . . .	5,697	(15,066)	(9,369)	(94)	3,632	3,538
Total . . . . .	5,261	(15,024)	(9,763)	(537)	3,759	3,222
Reverse repurchase agreements and cash collateral on securities borrowed:						
Domestic offices . . . . .	1,229	159	1,388	3,080	(192)	2,888
Foreign offices . . . . .	4,487	1,715	6,202	195	1,907	2,102
Total . . . . .	5,716	1,874	7,590	3,275	1,715	4,990
Held-to-maturity investments:						
Domestic offices . . . . .	(4,455)	(1,669)	(6,124)	(5,090)	(2,539)	(7,629)
Total . . . . .	(4,455)	(1,669)	(6,124)	(5,090)	(2,539)	(7,629)
Available-for-sale financial assets:						
Domestic offices . . . . .	(14,692)	17,552	2,860	1,582	4,416	5,998
Foreign offices . . . . .	6,939	(1,239)	5,700	2,347	1,702	4,049
Total . . . . .	(7,753)	16,313	8,560	3,929	6,118	10,047
Loans and advances:						
Domestic offices . . . . .	63,231	(72,711)	(9,480)	20,525	(28,106)	(7,581)
Foreign offices . . . . .	(23,302)	54,898	31,596	68,923	19,415	88,338
Total . . . . .	39,929	(17,813)	22,116	89,448	(8,691)	80,757
Total interest income:						
Domestic offices . . . . .	44,837	(57,259)	(12,422)	19,822	(26,239)	(6,417)
Foreign offices . . . . .	(14,442)	54,541	40,099	70,708	25,672	96,380
Total . . . . .	¥ 30,395	¥ (2,718)	¥ 27,677	¥ 90,530	¥ (567)	¥ 89,963

	Fiscal year ended March 31, 2017 compared to fiscal year ended March 31, 2016 Increase / (decrease)			Fiscal year ended March 31, 2016 compared to fiscal year ended March 31, 2015 Increase / (decrease)		
	Volume	Rate	Net change	Volume	Rate	Net change
	(In millions)					
<b>Interest expense:</b>						
Deposits:						
Domestic offices . . . . .	¥ 2,448	¥ (14,599)	¥ (12,151)	¥ 2,730	¥ (4,054)	¥ (1,324)
Foreign offices . . . . .	3,785	55,082	58,867	9,149	28,920	38,069
Total . . . . .	6,233	40,483	46,716	11,879	24,866	36,745
Call money and bills sold:						
Domestic offices . . . . .	(715)	(717)	(1,432)	111	(91)	20
Foreign offices . . . . .	(286)	1,421	1,135	(744)	2,293	1,549
Total . . . . .	(1,001)	704	(297)	(633)	2,202	1,569
Repurchase agreements and cash collateral on securities lent:						
Domestic offices . . . . .	(27)	(2,939)	(2,966)	1,867	624	2,491
Foreign offices . . . . .	4,344	4,140	8,484	1,649	1,045	2,694
Total . . . . .	4,317	1,201	5,518	3,516	1,669	5,185
Borrowings:						
Domestic offices . . . . .	(13,227)	15,646	2,419	6,173	(4,735)	1,438
Foreign offices . . . . .	471	4,742	5,213	655	(927)	(272)
Total . . . . .	(12,756)	20,388	7,632	6,828	(5,662)	1,166
Debt securities in issue:						
Domestic offices . . . . .	4,910	5,418	10,328	15,158	(4,833)	10,325
Foreign offices . . . . .	(4,925)	6,362	1,437	840	4,218	5,058
Total . . . . .	(15)	11,780	11,765	15,998	(615)	15,383
Other interest-bearing liabilities:						
Domestic offices . . . . .	18	(115)	(97)	(28)	(27)	(55)
Foreign offices . . . . .	29	(29)	0	(21)	22	1
Total . . . . .	47	(144)	(97)	(49)	(5)	(54)
Total interest expense:						
Domestic offices . . . . .	(6,593)	2,694	(3,899)	26,011	(13,116)	12,895
Foreign offices . . . . .	3,418	71,718	75,136	11,528	35,571	47,099
Total . . . . .	¥ (3,175)	¥ 74,412	¥ 71,237	¥ 37,539	¥ 22,455	¥ 59,994
<b>Net interest income:</b>						
Domestic offices . . . . .	¥ 51,430	¥ (59,953)	¥ (8,523)	¥ (6,189)	¥ (13,123)	¥ (19,312)
Foreign offices . . . . .	(17,860)	(17,177)	(35,037)	59,180	(9,899)	49,281
Total . . . . .	¥ 33,570	¥ (77,130)	¥ (43,560)	¥ 52,991	¥ (23,022)	¥ 29,969

*Fiscal Year Ended March 31, 2017 Compared to Fiscal Year Ended March 31, 2016*

*Interest Income*

Our interest income increased by ¥27,677 million, or 1%, from ¥1,872,584 million for the fiscal year ended March 31, 2016 to ¥1,900,261 million for the fiscal year ended March 31, 2017, primarily due to an increase in interest income on loans and advances. Interest income on loans and advances increased by ¥22,116 million, or

1%, from ¥1,703,361 million for the fiscal year ended March 31, 2016 to ¥1,725,477 million for the fiscal year ended March 31, 2017, primarily due to performance in our foreign offices. Interest income on loans and advances at foreign offices increased by ¥31,596 million, or 5%, from ¥611,823 million for the fiscal year ended March 31, 2016 to ¥643,419 million for the fiscal year ended March 31, 2017, due to an increase in the average rate of loans to foreign customers, which was partially offset by a decrease in volume reflecting the appreciations of the yen against other currencies compared to the previous fiscal year. Interest income on loans and advances at domestic offices decreased by ¥9,480 million, or 1%, from ¥1,091,538 million for the fiscal year ended March 31, 2016 to ¥1,082,058 million for the fiscal year ended March 31, 2017, due to a decrease in the average rate reflecting a decrease in market interest rates and continuing intense competition in the commercial banking industry, which was substantially offset by an increase in volume.

#### *Interest Expense*

Our interest expense increased by ¥71,237 million, or 17%, from ¥431,101 million for the fiscal year ended March 31, 2016 to ¥502,338 million for the fiscal year ended March 31, 2017, primarily due to increases in interest expense on deposits and debt securities in issue. Our interest expense on deposits increased by ¥46,716 million, or 23%, from ¥202,312 million for the fiscal year ended March 31, 2016 to ¥249,028 million for the fiscal year ended March 31, 2017, primarily due to an increase at foreign offices reflecting an increase in the average rate, which was partially offset by a decrease in the average rate at domestic offices. Interest expense on debt securities in issue increased by ¥11,765 million, or 9%, from ¥135,172 million for the fiscal year ended March 31, 2016 to ¥146,937 million for the fiscal year ended March 31, 2017, primarily due to an increase in average rate.

#### *Net Interest Income*

Our net interest income decreased by ¥43,560 million, or 3%, from ¥1,441,483 million for the fiscal year ended March 31, 2016 to ¥1,397,923 million for the fiscal year ended March 31, 2017. The net interest income decreased primarily due to increases in interest expense on deposits and debt securities in issue, which were partially offset by an increase in interest income on loans and advances.

From the fiscal year ended March 31, 2016 to March 31, 2017, the average rate on loans and advances at domestic offices decreased by 0.11 percentage points from 1.73% to 1.62%, primarily due to a decrease in market interest rates and the continuing intense competition in the commercial banking industry. The average rate on loans and advances at foreign offices increased by 0.21 percentage points from 2.33% to 2.54%. As a result, the total for loans and advances slightly decreased by 0.03 percentage points from 1.90% to 1.87%. On the other hand, the average rate on deposits at domestic offices slightly decreased by 0.02 percentage points from 0.06% to 0.04%, and the average rate on deposits at foreign offices increased by 0.23 percentage points from 0.68% to 0.91%, resulting in the total for deposits increasing by 0.03 percentage points from 0.20% to 0.23%.

#### *Fiscal Year Ended March 31, 2016 Compared to Fiscal Year Ended March 31, 2015*

##### *Interest Income*

Our interest income increased by ¥89,963 million, or 5%, from ¥1,782,621 million for the fiscal year ended March 31, 2015 to ¥1,872,584 million for the fiscal year ended March 31, 2016, primarily due to an increase in interest income on loans and advances. Interest income on loans and advances increased by ¥80,757 million, or 5%, from ¥1,622,604 million for the fiscal year ended March 31, 2015 to ¥1,703,361 million for the fiscal year ended March 31, 2016. Interest income on loans and advances at foreign offices increased by ¥88,338 million, or 17%, from ¥523,485 million for the fiscal year ended March 31, 2015 to ¥611,823 million for the fiscal year ended March 31, 2016, due to an increase in the average balances of loans to foreign customers, reflecting our allocation of assets primarily to the United States. Interest income on loans and advances at domestic offices decreased by ¥7,581 million, or 1%, from ¥1,099,119 million for the fiscal year ended March 31, 2015 to ¥1,091,538 million for the fiscal year ended March 31, 2016, due to a decrease in the average rate reflecting continuing intense competition in the commercial banking industry.

### *Interest Expense*

Our interest expense increased by ¥59,994 million, or 16%, from ¥371,107 million for the fiscal year ended March 31, 2015 to ¥431,101 million for the fiscal year ended March 31, 2016, primarily due to increases in interest expense on deposits and debt securities in issue. Our interest expense on deposits increased by ¥36,745 million, or 22%, from ¥165,567 million for the fiscal year ended March 31, 2015 to ¥202,312 million for the fiscal year ended March 31, 2016, primarily due to an increase at foreign offices. Interest expense on debt securities in issue increased by ¥15,383 million, or 13%, from ¥119,789 million for the fiscal year ended March 31, 2015 to ¥135,172 million for the fiscal year ended March 31, 2016, primarily due to an increase in average balances.

### *Net Interest Income*

Our net interest income increased by ¥29,969 million, or 2%, from ¥1,411,514 million for the fiscal year ended March 31, 2015 to ¥1,441,483 million for the fiscal year ended March 31, 2016. The net interest income increased primarily due to an increase in interest income on loans and advances, which was partially offset by increases in the interest expense on deposits and debt securities in issue.

From the fiscal year ended March 31, 2015 to March 31, 2016, the average rate on loans and advances at domestic offices decreased by 0.04 percentage points from 1.77% to 1.73%, primarily due to the continuing intense competition in the commercial banking industry. The average rate on loans and advances at foreign offices increased by 0.08 percentage points from 2.25% to 2.33%. As a result, the total for loans and advances was 1.90%, the same level as that of the previous year. On the other hand, the average rate on deposits at domestic offices slightly decreased by 0.01 percentage points from 0.07% to 0.06%, and the average rate on deposits at foreign offices increased by 0.13 percentage points from 0.55% to 0.68%, resulting in the total for deposits increasing by 0.03 percentage points from 0.17% to 0.20%.

### *Net Fee and Commission Income*

The following table sets forth our net fee and commission income for the periods shown.

	<b>For the fiscal year ended March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	(In millions)		
<b>Fee and commission income from:</b>			
Loans . . . . .	¥ 128,305	¥ 121,934	¥ 103,486
Credit card business . . . . .	261,253	253,136	245,133
Guarantees . . . . .	58,221	55,618	51,794
Securities-related business . . . . .	146,655	133,019	130,164
Deposits . . . . .	15,929	14,882	14,976
Remittances and transfers . . . . .	138,029	133,110	129,465
Safe deposits . . . . .	5,414	5,511	5,748
Trust fees . . . . .	3,607	3,619	2,833
Investment trusts . . . . .	126,590	116,057	147,021
Agency . . . . .	16,753	16,432	16,854
Others . . . . .	165,656	178,362	155,292
Total fee and commission income . . . . .	<u>1,066,412</u>	<u>1,031,680</u>	<u>1,002,766</u>
<b>Fee and commission expense from:</b>			
Remittances and transfers . . . . .	39,419	38,358	36,669
Guarantees . . . . .	3,434	3,071	3,012
Others . . . . .	138,720	89,952	89,572
Total fee and commission expense . . . . .	<u>181,573</u>	<u>131,381</u>	<u>129,253</u>
Net fee and commission income . . . . .	<u>¥ 884,839</u>	<u>¥ 900,299</u>	<u>¥ 873,513</u>

*Fiscal Year Ended March 31, 2017 Compared to Fiscal Year Ended March 31, 2016*

Fee and commission income increased by ¥34,732 million, or 3%, from ¥1,031,680 million for the fiscal year ended March 31, 2016 to ¥1,066,412 million for the fiscal year ended March 31, 2017. Primary sources of fee and commission income are fees obtained through our credit card business, fees obtained through securities-related business, remittance and transfer fees, loan transaction fees, and fees and commissions obtained through investment trusts. The increase in fee and commission income was primarily due to increases in fees obtained through securities-related business, mainly equity underwriting commissions, and fee and commissions obtained through investment trusts reflecting the inclusion of fees related to investment trusts at SMAM.

Fee and commission expense was ¥181,573 million for the fiscal year ended March 31, 2017, increased by ¥50,192 million, or 38%, from ¥131,381 million for the fiscal year ended March 31, 2016. The inclusion of fee and commission expense of SMAM contributed to the increase in total fee and commission expense.

As a result, net fee and commission income decreased by ¥15,460 million, or 2%, from ¥900,299 million for the fiscal year ended March 31, 2016 to ¥884,839 million for the fiscal year ended March 31, 2017.

*Fiscal Year Ended March 31, 2016 Compared to Fiscal Year Ended March 31, 2015*

Fee and commission income increased by ¥28,914 million, or 3%, from ¥1,002,766 million for the fiscal year ended March 31, 2015 to ¥1,031,680 million for the fiscal year ended March 31, 2016. Primary sources of fee and commission income are fees obtained through our credit card business, remittance and transfer fees, fees obtained through securities-related business, loan transaction fees, and investment trust sales commissions. The increase in fee and commission income was primarily due to increases in loan transaction fees and fees obtained through our credit card business.

Fee and commission expense was ¥131,381 million for the fiscal year ended March 31, 2016, increased by ¥2,128 million, or 2%, from ¥129,253 million for the fiscal year ended March 31, 2015.

As a result, net fee and commission income increased by ¥26,786 million, or 3%, from ¥873,513 million for the fiscal year ended March 31, 2015 to ¥900,299 million for the fiscal year ended March 31, 2016.

***Net Income from Trading, Financial Assets at Fair Value Through Profit or Loss and Investment Securities***

The following table sets forth our net income from trading, financial assets at fair value through profit or loss and investment securities for the periods shown.

	For the fiscal year ended March 31,		
	2017	2016	2015
	(In millions)		
<b>Net trading income:</b>			
Interest rate .....	¥ 79,650	¥ 240,763	¥ 248,372
Foreign exchange .....	51,143	204,349	(136,708)
Equity .....	39,478	18,019	499
Credit .....	13,063	(2,641)	16,970
Others .....	629	2,192	(1,374)
Total net trading income .....	<u>¥ 183,963</u>	<u>¥ 462,682</u>	<u>¥ 127,759</u>
<b>Net income from financial assets at fair value through profit or loss:</b>			
Net income from debt instruments .....	¥ 428	¥ 11,311	¥ 13,123
Net income from equity instruments .....	1,590	949	9,555
Total net income from financial assets at fair value through profit or loss .....	<u>¥ 2,018</u>	<u>¥ 12,260</u>	<u>¥ 22,678</u>
<b>Net investment income:</b>			
Net gain from disposal of debt instruments .....	¥ 39,484	¥ 71,641	¥ 45,193
Net gain from disposal of equity instruments .....	142,016	175,494	190,570
Dividend income .....	123,827	128,094	135,301
Total net investment income .....	<u>¥ 305,327</u>	<u>¥ 375,229</u>	<u>¥ 371,064</u>

*Fiscal Year Ended March 31, 2017 Compared to Fiscal Year Ended March 31, 2016*

Net trading income, which includes income and losses from trading assets and liabilities and derivative financial instruments, decreased by ¥278,719 million from ¥462,682 million for the fiscal year ended March 31, 2016 to ¥183,963 million for the fiscal year ended March 31, 2017. The decrease was primarily due to a decrease in net trading income from interest rate related transactions and foreign exchange transactions related to the “economic hedges.”

We have carried out hedging transactions to hedge both the interest rate risk of financial assets and liabilities and the foreign exchange risk of foreign currency denominated assets and liabilities. Of those hedges, the economic hedges are economically effective for risk management but are not accounted for as hedge accounting under IFRS as they do not meet the conditions for hedge accounting under IFRS.

As for the economic hedges against the interest rate risk, hedged items include loans, borrowings and debt securities in issue, and hedging instruments are derivative financial instruments such as interest rate swaps. As for the economic hedges against the foreign exchange risk, hedged items and hedging instruments are classified into three types: (1) net investments in foreign operations hedged by using foreign currency denominated financial liabilities such as deposits and borrowings, and derivative financial instruments, (2) foreign currency denominated equity instruments classified as available-for-sale financial assets hedged by using foreign currency denominated financial liabilities, and (3) foreign currency denominated financial assets and liabilities, such as loans and deposits hedged by using derivative financial instruments such as currency swaps.

The economic hedge transactions lead to accounting mismatches (i.e., when the gains or losses on the hedged items and hedging instruments do not arise at the same time, or the items and the instruments do not



offset each other either in profit or loss, or in other comprehensive income). Accordingly, large fluctuations in interest rates and/or large depreciations or appreciations of the yen against other currencies may result in significant fluctuations to net trading income from interest rate related transactions and/or foreign exchange transactions.

The decrease in net trading income from interest rate related transactions reflected a rise in U.S. interest rates. The decrease in net trading income from foreign exchange transactions was primarily due to a decrease in the impact of the appreciation of the yen against the U.S. dollar on gains or losses arising from foreign exchange. The yen exchange rate against the U.S. dollar was ¥112.19, ¥112.62 and ¥120.15 at March 31, 2017, 2016 and 2015, respectively. This resulted in the 0.43-yen appreciation of the yen against the U.S. dollar during the fiscal year ended March 31, 2017, which was smaller than the 7.53-yen appreciation during the previous fiscal year. For further information about the yen exchange rates, see “Item 3. Key Information—3.A. Selected Financial Data—Exchange Rates.”

Net income from financial assets at fair value through profit or loss decreased by ¥10,242 million from ¥12,260 million for the fiscal year ended March 31, 2016 to ¥2,018 million for the fiscal year ended March 31, 2017, primarily due to a decrease in gains arising from sales and changes in the fair value of debt instruments.

Net investment income decreased by ¥69,902 million from ¥375,229 million for the fiscal year ended March 31, 2016 to ¥305,327 million for the fiscal year ended March 31, 2017. This was primarily due to a decrease in net gains from sales of equity index-linked investment trusts and bonds.

#### *Fiscal Year Ended March 31, 2016 Compared to Fiscal Year Ended March 31, 2015*

Net trading income, which includes income and losses from trading assets and liabilities and derivative financial instruments, increased by ¥334,923 million from ¥127,759 million for the fiscal year ended March 31, 2015 to ¥462,682 million for the fiscal year ended March 31, 2016. The increase was primarily due to a shift from net trading loss to net trading income from foreign exchange transactions related to the economic hedges against foreign exchange risk as described in the previous section.

The shift from net trading loss to net trading income from foreign exchange transactions related to the economic hedges was primarily due to an appreciation during the fiscal year ended March 31, 2016 versus a depreciation during the previous fiscal year of the yen against the U.S. dollar. The yen appreciated against the U.S. dollar by 7.53-yen from ¥120.15 at March 31, 2015 to ¥112.62 at March 31, 2016, whereas the yen depreciated by 17.27-yen from ¥102.88 at March 31, 2014 to ¥120.15 at March 31, 2015. For further information about the yen exchange rates, see “Item 3. Key Information—3.A. Selected Financial Data—Exchange Rates.”

Net income from financial assets at fair value through profit or loss decreased by ¥10,418 million from ¥22,678 million for the fiscal year ended March 31, 2015 to ¥12,260 million for the fiscal year ended March 31, 2016, primarily due to a decrease in gains arising from sales and changes in the fair value of equity instruments.

Net investment income increased by ¥4,165 million from ¥371,064 million for the fiscal year ended March 31, 2015 to ¥375,229 million for the fiscal year ended March 31, 2016. This was primarily due to an increase in net gains from sales of bonds, which was partially offset by a decrease in net gains from sales of equity index-linked investment trusts.

### **Other Income**

The following table sets forth our other income for the periods shown.

	For the fiscal year ended March 31,		
	2017	2016	2015
		(In millions)	
Income from operating leases . . . . .	¥ 250,460	¥ 206,561	¥ 179,632
Income related to disposal of assets leased . . . . .	152,564	155,280	183,590
Income related to IT solution services . . . . .	37,678	33,991	35,506
Gains on disposal of property, plant and equipment, and other intangible assets . . . . .	937	3,714	538
Reversal of impairment losses of investments in associates and joint ventures . . . . .	—	4,847	—
Gains on step acquisition of subsidiaries . . . . .	20,344	118	—
Gains on step acquisition of associates and joint ventures . . . . .	—	1,714	37,997
Others . . . . .	111,842	90,048	88,642
Total other income . . . . .	<u>¥ 573,825</u>	<u>¥ 496,273</u>	<u>¥ 525,905</u>

#### *Fiscal Year Ended March 31, 2017 Compared to Fiscal Year Ended March 31, 2016*

Other income increased by ¥77,552 million, or 16%, from ¥496,273 million for the fiscal year ended March 31, 2016 to ¥573,825 million for the fiscal year ended March 31, 2017. The increase was primarily due to increases in income from operating leases reflecting the inclusion of GE group's leasing business in Japan, which we acquired on April 1, 2016, and gains on step acquisition of subsidiaries related to the acquisition of SMAM.

#### *Fiscal Year Ended March 31, 2016 Compared to Fiscal Year Ended March 31, 2015*

Other income decreased by ¥29,632 million, or 6%, from ¥525,905 million for the fiscal year ended March 31, 2015 to ¥496,273 million for the fiscal year ended March 31, 2016. The decrease was primarily due to decreases in gains on step acquisition of associates and joint ventures and income related to disposal of assets leased, which was partially offset by an increase in income from operating leases.

### **Impairment Charges on Financial Assets**

The following table sets forth our impairment charges on financial assets for the periods shown.

	For the fiscal year ended March 31,		
	2017	2016	2015
		(In millions)	
Loans and advances . . . . .	¥ 141,457	¥ 118,750	¥ 79,552
Available-for-sale financial assets . . . . .	71,510	29,606	10,586
Total impairment charges on financial assets . . . . .	<u>¥ 212,967</u>	<u>¥ 148,356</u>	<u>¥ 90,138</u>

#### *Fiscal Year Ended March 31, 2017 Compared to Fiscal Year Ended March 31, 2016*

Our impairment charges on financial assets consist of losses relating to loans and advances and available-for-sale financial assets. Impairment charges on loans and advances are mainly affected by the economic environment and financial conditions of borrowers. On the other hand, impairment charges on available-for-sale financial assets are mainly affected by not only the economic environment and financial conditions of issuers but the fair value of the financial instruments, such as market prices on stock markets in the case of equity instruments.

Impairment charges on loans and advances increased by ¥22,707 million from ¥118,750 million for the fiscal year ended March 31, 2016 to ¥141,457 million for the fiscal year ended March 31, 2017, primarily due to an increase in impairment charges on loans and advances to our domestic customers.

For detailed information on provision for loan losses, see “—Financial Condition—Allowance for Loan Losses.”

Impairment charges on available-for-sale financial assets increased by ¥41,904 million from ¥29,606 million for the fiscal year ended March 31, 2016 to ¥71,510 million for the fiscal year ended March 31, 2017, primarily due to an increase in impairment charges on investment trusts, mainly those investing in Japanese or foreign stocks. Most of these impairment charges reflected the decline in the Nikkei Stock Average and the appreciation of the yen against the U.S. dollar for the first half of the fiscal year ended March 31, 2017, as described in “Item 5. Operating and Financial Review and Prospects—Overview—Operating Environment.”

In determining the amount of impairment charges at the end of each reporting period, we consider whether there is objective evidence of impairment as a result of loss events, such as any significant financial difficulty of the issuer. Our assessments of issuers are focused by industry and geographical area, taking into consideration the adverse impact of any specific issues such as significant changes in the technological, market, economic or legal environment of the issuer indicating that the cost of our investment may not be recovered. Additionally, in the case of available-for-sale equity instruments, we take into consideration whether there has been a significant or prolonged decline in the fair value of the equity instruments below their cost.

For the fiscal year ended March 31, 2017, the types of securities on which the impairment charges were recognized included investment trusts and investments in limited partnerships.

For detailed information on our available-for-sale financial assets, which include a diversified portfolio of domestic equity instruments, see “—Financial Condition—Investment Securities.”

#### *Fiscal Year Ended March 31, 2016 Compared to Fiscal Year Ended March 31, 2015*

Impairment charges on loans and advances increased by ¥39,198 million from ¥79,552 million for the fiscal year ended March 31, 2015 to ¥118,750 million for the fiscal year ended March 31, 2016, primarily due to an increase in impairment charges on loans and advances to our foreign customers.

For detailed information on provision for loan losses, see “—Financial Condition—Allowance for Loan Losses.”

Impairment charges on available-for-sale financial assets increased by ¥19,020 million from ¥10,586 million for the fiscal year ended March 31, 2015 to ¥29,606 million for the fiscal year ended March 31, 2016, primarily due to an increase in impairment charges on foreign investment trusts and publicly traded Japanese stocks. The types of securities on which the impairment charges were recognized for the fiscal year ended March 31, 2016 included investments in limited partnerships, investment trusts and listed stocks.

For detailed information on our available-for-sale financial assets, which include a diversified portfolio of domestic equity instruments, see “—Financial Condition—Investment Securities.”

### General and Administrative Expenses

The following table sets forth our general and administrative expenses for the periods shown.

	For the fiscal year ended March 31,		
	2017	2016	2015
	(In millions)		
Personnel expenses	¥ 833,755	¥ 785,547	¥ 749,480
Depreciation and amortization	172,496	157,672	146,233
Rent and lease expenses	115,425	117,482	116,745
Building and maintenance expenses	10,657	13,966	10,068
Supplies expenses	16,694	16,628	14,865
Communication expenses	37,250	36,634	35,126
Publicity and advertising expenses	79,570	79,453	68,481
Taxes and dues	85,967	76,695	67,913
Outsourcing expenses	96,063	91,837	91,189
Premiums for deposit insurance	38,180	36,175	56,789
Office equipment expenses	49,127	47,621	47,318
Others	216,951	246,553	217,690
Total general and administrative expenses	<u>¥1,752,135</u>	<u>¥1,706,263</u>	<u>¥1,621,897</u>

#### Fiscal Year Ended March 31, 2017 Compared to Fiscal Year Ended March 31, 2016

General and administrative expenses increased by ¥45,872 million, or 3%, from ¥1,706,263 million for the fiscal year ended March 31, 2016 to ¥1,752,135 million for the fiscal year ended March 31, 2017, primarily due to the full inclusion of general and administrative expenses of SMBC Trust Bank, which acquired the retail banking business of Citibank Japan Ltd. in November 2015, and the inclusion of GE group's leasing business in Japan, which we acquired on April 1, 2016.

#### Fiscal Year Ended March 31, 2016 Compared to Fiscal Year Ended March 31, 2015

General and administrative expenses increased by ¥84,366 million, or 5%, from ¥1,621,897 million for the fiscal year ended March 31, 2015 to ¥1,706,263 million for the fiscal year ended March 31, 2016, primarily due to increases in expenses related to overseas business development including an increase in our overseas staff and expenses of SMBC Trust Bank, reflecting the acquisition of the retail banking business of Citibank Japan in November 2015.

### Other Expenses

The following table sets forth our other expenses for the periods shown.

	For the fiscal year ended March 31,		
	2017	2016	2015
	(In millions)		
Cost of operating leases	¥ 126,320	¥ 95,440	¥ 87,206
Cost related to disposal of assets leased	140,255	140,083	171,707
Cost related to IT solution services and IT systems	92,247	90,563	84,300
Provision for interest repayment	11,439	141,024	64,195
Losses on disposal of property, plant and equipment, and other intangible assets	6,041	4,302	6,703
Impairment losses of property, plant and equipment	6,396	4,237	5,108
Impairment losses of intangible assets	74,788	1,278	4
Losses on sale of investments in subsidiaries and associates	—	24	2,221
Impairment losses of investments in associates and joint ventures	14,941	17,306	4,631
Others	59,332	44,706	79,539
Total other expenses	<u>¥ 531,759</u>	<u>¥ 538,963</u>	<u>¥ 505,614</u>

*Fiscal Year Ended March 31, 2017 Compared to Fiscal Year Ended March 31, 2016*

Other expenses decreased by ¥7,204 million, or 1%, from ¥538,963 million for the fiscal year ended March 31, 2016 to ¥531,759 million for the fiscal year ended March 31, 2017, primarily due to a decrease in provision for interest repayment, which was partially offset by increases in impairment losses of intangible assets and cost of operating leases.

*Fiscal Year Ended March 31, 2016 Compared to Fiscal Year Ended March 31, 2015*

Other expenses increased by ¥33,349 million, or 7%, from ¥505,614 million for the fiscal year ended March 31, 2015 to ¥538,963 million for the fiscal year ended March 31, 2016, primarily due to increases in provision for interest repayment, impairment losses of investments in associates and joint ventures, and cost of operating leases, which was partially offset by a decrease in cost related to disposal of assets leased.

***Share of Post-tax Profit of Associates and Joint Ventures***

*Fiscal Year Ended March 31, 2017 Compared to Fiscal Year Ended March 31, 2016*

Share of post-tax profit of associates and joint ventures decreased by ¥1,738 million from ¥31,056 million for the fiscal year ended March 31, 2016 to ¥29,318 million for the fiscal year ended March 31, 2017, primarily due to a decrease in our share of the profit of foreign associates and joint ventures.

*Fiscal Year Ended March 31, 2016 Compared to Fiscal Year Ended March 31, 2015*

Share of post-tax profit of associates and joint ventures increased by ¥12,932 million from ¥18,124 million for the fiscal year ended March 31, 2015 to ¥31,056 million for the fiscal year ended March 31, 2016. This was primarily due to the inclusion of our share of the profit of The Bank of East Asia, Limited, which became our equity-method associate in March 2015.

***Income Tax Expense***

*Fiscal Year Ended March 31, 2017 Compared to Fiscal Year Ended March 31, 2016*

Income tax expense decreased by ¥233,112 million from ¥372,878 million for the fiscal year ended March 31, 2016 to ¥139,766 million for the fiscal year ended March 31, 2017, due to a decrease in deferred tax expense. The decrease was primarily due to an increase of deductible temporary differences attributable to derivative financial instruments, and the reversal of the write-down of deferred tax assets at March 31, 2017 in accordance with the application to the Commissioner of the National Tax Agency for permission to adopt the consolidated corporate-tax system in Japan from the fiscal year beginning April 1, 2017. Under this system, the taxable profits or losses on a consolidated basis are calculated by aggregating those of the parent company and its wholly owned domestic subsidiaries (a “tax consolidated group”), and any unused tax losses carried forward, except for certain specified consolidated tax losses carried forward, by one company can be used by another company within the tax consolidated group for Japanese national corporation tax purposes. Regarding the consolidated corporate tax-system, see Note 22 “Deferred Income Tax” to our consolidated financial statements included elsewhere in this annual report.

*Fiscal Year Ended March 31, 2016 Compared to Fiscal Year Ended March 31, 2015*

Income tax expense decreased by ¥37,069 million from ¥409,947 million for the fiscal year ended March 31, 2015 to ¥372,878 million for the fiscal year ended March 31, 2016. The decrease was primarily due to a decrease in current tax expenses resulting from a decrease in taxable income and changes in Japanese corporation tax rates, which was partially offset by an increase in deferred tax expense. Regarding the changes in Japanese corporation tax rates, see Note 22 “Deferred Income Tax” to our consolidated financial statements included elsewhere in this annual report.

## **Business Segment Analysis**

Our business segment information is prepared based on the internal reporting system utilized by our management to assess the performance of our business segments under Japanese GAAP. We have four main business segments: Commercial Banking, Leasing, Securities and Consumer Finance, with the remaining operations recorded in Others. The Commercial Banking segment covers the Bank, which accounts for the major portion of our total assets and revenue, other domestic banking subsidiaries, such as SMBC Trust Bank, KUBC and The Minato Bank, as well as foreign banking subsidiaries, such as SMBC Europe, SMBC (China) and Manufacturers Bank. We have SMFL in the Leasing segment, SMBC Nikko Securities and SMBC Friend Securities in the Securities segment and Sumitomo Mitsui Card, Cedyna and SMBC Consumer Finance in the Consumer Finance segment. Since the Bank has a significant impact on our overall performance, its performance is reported to management in more detail by each business unit based on customer market.

The Bank conducts its primary banking business through its four business units: the Wholesale Banking Unit, the Retail Banking Unit, the International Banking Unit and the Treasury Unit. In addition to the four business units, the Investment Banking Unit, the Corporate Advisory Division, the Private Advisory Division and the Transaction Business Division of the Bank provide a broad range of financial products, services and solutions to address sophisticated and diverse issues and needs of the Bank's customers. The Investment Banking Unit is a cross-sectional unit which operates across the four business units. The Corporate Advisory Division operates within the Wholesale Banking Unit, and the Private Advisory Division operates within the Wholesale Banking Unit and the Retail Banking Unit, while the Transaction Business Division operates within the Wholesale Banking Unit, the Retail Banking Unit and the International Banking Unit. The revenues and expenses of these units and divisions are generally allocated to each business unit. Organizational charts of SMFG and the Bank are provided in "Item 4.C. Organizational Structure." Since figures reported to management are prepared under Japanese GAAP, the segment information does not agree to figures in the consolidated financial statements under IFRS. This difference is addressed in Note 4 "Segment Analysis—Reconciliation of Segmental Results of Operations to Consolidated Income Statement" to our consolidated financial statements included elsewhere in this annual report.

## Segmental Results of Operations

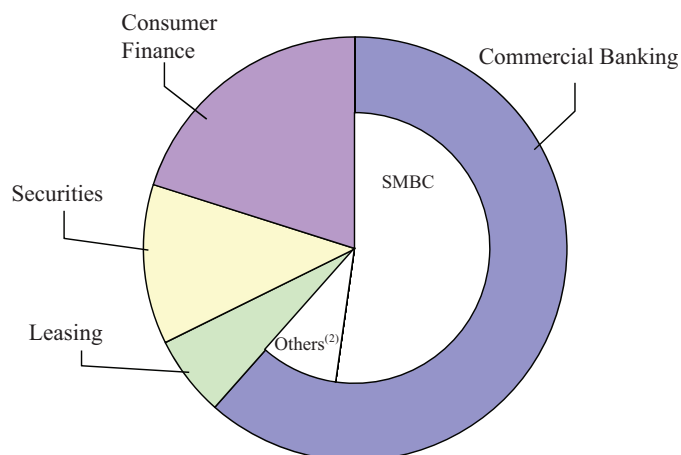
For the fiscal year ended March 31, 2017:

	Commercial Banking									
	SMBC						Others <sup>(2)</sup>	Total		
	Wholesale Banking Unit	Retail Banking Unit	International Banking Unit	Treasury Unit	Others	SMBC Total				
	(In billions)									
Gross profit	¥ 528.4	¥ 355.3	¥ 327.5	¥ 272.4	¥ 180.0	¥ 1,663.6	¥ 296.2	¥ 1,959.8		
Net interest income	271.1	294.8	194.7	144.2	234.1	1,138.9	184.4	1,323.3		
Net non-interest income	257.3	60.5	132.8	128.2	(54.1)	524.7	111.8	636.5		
General and administrative expenses and others	(199.1)	(350.9)	(128.8)	(27.4)	(110.7)	(816.9)	(247.0)	(1,063.9)		
Consolidated net business profit <sup>(1)(7)</sup>	¥ 329.3	¥ 4.4	¥ 198.7	¥ 245.0	¥ 69.3	¥ 846.7	¥ 49.2	¥ 895.9		

	Leasing		Securities			Consumer Finance			Others	Total	
	SMFL <sup>(3)</sup>	Total <sup>(4)</sup>	SMBC Nikko Securities <sup>(5)</sup>	SMBC Friend Securities	Total <sup>(4)</sup>	Sumitomo Mitsui Card	Cedyna <sup>(6)</sup>	SMBC Consumer Finance <sup>(3)</sup>			Total <sup>(4)</sup>
		(In billions)									
Gross profit	¥ 178.8	¥ 196.4	¥ 351.2	¥ 43.3	¥ 388.8	¥ 222.1	¥ 168.4	¥ 246.3	¥ 640.5	¥ (264.8)	¥ 2,920.7
Net interest income	25.0	29.2	4.6	1.5	7.6	14.5	23.6	162.5	199.3	(200.8)	1,358.6
Net non-interest income	153.8	167.2	346.6	41.8	381.2	207.6	144.8	83.8	441.2	(64.0)	1,562.1
General and administrative expenses and others	(82.6)	(89.4)	(268.8)	(37.4)	(316.2)	(173.0)	(127.0)	(104.8)	(415.4)	97.1	(1,787.8)
Consolidated net business profit <sup>(1)(7)</sup>	¥ 96.2	¥ 107.0	¥ 82.4	¥ 5.9	¥ 72.6	¥ 49.1	¥ 41.4	¥ 141.5	¥ 225.1	¥ (167.7)	¥ 1,132.9

Gross Profit by Business Segment  
(For the fiscal year ended March 31, 2017)



For the fiscal year ended March 31, 2016:

Commercial Banking									
SMBC							Others <sup>(2)</sup>	Total	
	Wholesale Banking Unit	Retail Banking Unit	International Banking Unit	Treasury Unit	Others	SMBC Total			
(In billions)									
Gross profit	¥ 545.3	¥ 372.8	¥ 356.0	¥ 293.6	¥ (33.4)	¥ 1,534.3	¥ 303.0	¥	1,837.3
Net interest income	300.1	302.0	225.4	168.2	27.9	1,023.6	174.4		1,198.0
Net non-interest income	245.2	70.8	130.6	125.4	(61.3)	510.7	128.6		639.3
General and administrative expenses and others	(205.1)	(354.1)	(116.5)	(29.1)	(100.7)	(805.5)	(218.9)		(1,024.4)
Consolidated net business profit <sup>(1)(7)</sup>	¥ 340.2	¥ 18.7	¥ 239.5	¥ 264.5	¥ (134.1)	¥ 728.8	¥ 84.1		¥ 812.9

Leasing		Securities			Consumer Finance			Others	Total		
SMFL <sup>(3)</sup>	Total <sup>(4)</sup>	SMBC Nikko Securities <sup>(5)</sup>	SMBC Friend Securities	Total <sup>(4)</sup>	Sumitomo Mitsui Card	Cedyna <sup>(6)</sup>	SMBC Consumer Finance <sup>(3)</sup>	Total <sup>(4)</sup>			
(In billions)											
Gross profit	¥ 142.8	¥ 162.6	¥ 316.3	¥ 43.8	¥ 357.1	¥ 208.5	¥ 165.2	¥ 233.4	¥ 611.5	¥ (64.5)	¥ 2,904.0
Net interest income	17.9	22.9	1.6	1.5	4.6	13.6	23.7	157.0	188.9	8.6	1,423.0
Net non-interest income	124.9	139.7	314.7	42.3	352.5	194.9	141.5	76.4	422.6	(73.1)	1,481.0
General and administrative expenses and others	(62.1)	(67.1)	(255.8)	(38.8)	(307.2)	(157.1)	(124.2)	(104.8)	(397.2)	34.8	(1,761.1)
Consolidated net business profit <sup>(1)(7)</sup>	¥ 80.7	¥ 95.5	¥ 60.5	¥ 5.0	¥ 49.9	¥ 51.4	¥ 41.0	¥ 128.6	¥ 214.3	¥ (29.7)	¥ 1,142.9



**For the fiscal year ended March 31, 2015:**

	Commercial Banking							Others <sup>(2)</sup>	Total
	SMBC						SMBC Total		
	Wholesale Banking Unit	Retail Banking Unit	International Banking Unit	Treasury Unit	Others				
	(In billions)								
Gross profit	¥ 555.4	¥ 386.8	¥ 345.3	¥ 354.0	¥ (7.2)	¥ 1,634.3	¥ 289.4	¥ 1,923.7	
Net interest income	315.8	313.2	227.8	212.4	52.2	1,121.4	171.3	1,292.7	
Net non-interest income	239.6	73.6	117.5	141.6	(59.4)	512.9	118.1	631.0	
General and administrative expenses and others	(206.8)	(350.1)	(106.6)	(25.9)	(101.8)	(791.2)	(203.0)	(994.2)	
Consolidated net business profit <sup>(1)(7)</sup>	¥ 348.6	¥ 36.7	¥ 238.7	¥ 328.1	¥ (109.0)	¥ 843.1	¥ 86.4	¥ 929.5	

	Leasing		Securities			Consumer Finance			Others	Total	
	SMFL <sup>(3)</sup>	Total <sup>(4)</sup>	SMBC Nikko Securities <sup>(5)</sup>	SMBC Friend Securities	Total <sup>(4)</sup>	Sumitomo Mitsui Card	Cedyna <sup>(6)</sup>	SMBC Consumer Finance <sup>(3)</sup>			Total <sup>(4)</sup>
	(In billions)										
Gross profit	¥ 137.0	¥ 149.3	¥ 346.3	¥ 50.4	¥ 393.9	¥ 196.4	¥ 164.2	¥ 215.5	¥ 576.9	¥ (63.4)	¥ 2,980.4
Net interest income	19.3	24.4	1.5	1.2	3.8	13.6	25.9	149.0	178.7	5.6	1,505.2
Net non-interest income	117.7	124.9	344.8	49.2	390.1	182.8	138.3	66.5	398.2	(69.0)	1,475.2
General and administrative expenses and others	(56.5)	(60.8)	(248.7)	(40.0)	(301.9)	(146.0)	(121.7)	(96.1)	(381.9)	68.9	(1,669.9)
Consolidated net business profit <sup>(1)(7)</sup>	¥ 80.5	¥ 88.5	¥ 97.6	¥ 10.4	¥ 92.0	¥ 50.4	¥ 42.5	¥ 119.4	¥ 195.0	¥ 5.5	¥ 1,310.5

(1) Consolidated net business profit = Gross profit (\*) – General and administrative expenses + share of profit or loss of equity-method associates.

(\*)Gross profit = (Interest income – Interest expenses) + Trust fees + (Fee and commission income – Fee and commission expenses) + (Trading income – Trading losses) + (Other operating income – Other operating expenses).

(2) Others in Commercial Banking consist of SMFG's banking subsidiaries except SMBC, such as SMBC Trust Bank, KUBC, The Minato Bank, SMBC Europe and SMBC (China). The results of SMBC Trust Bank for the fiscal years ended March 31, 2017 and 2016 include those of the retail banking business acquired from Citibank Japan Ltd. in November, 2015.

(3) The figures represent consolidated figures of respective companies.

(4) Total under each business segment, except Commercial Banking, includes the aggregation of the results from the operating units that were not separately identified.

(5) The figures are the sum of SMBC Nikko Securities (nonconsolidated basis) and its overseas securities subsidiaries.

(6) The figures represent Cedyna's consolidated figures excluding insignificant subsidiaries.

(7) The Group's total credit cost (reversal) for the fiscal years ended March 31, 2017, 2016 and 2015 were ¥164.4 billion, ¥102.8 billion and ¥7.8 billion, respectively, of which ¥59.0 billion, ¥10.3 billion and ¥(68.3) billion were for Commercial Banking, ¥3.7 billion, ¥(1.5) billion and ¥(6.1) billion were for Leasing, ¥(0.1) billion, ¥(0.2) billion and ¥(0.2) billion were for Securities and ¥98.6 billion, ¥91.4 billion and ¥78.8 billion were for Consumer Finance. Total credit costs include gains on recoveries of written-off claims. The Group's total credit costs (reversal) are not included in the consolidated net business profit.

## ***Commercial Banking***

### *Fiscal Year Ended March 31, 2017 Compared to Fiscal Year Ended March 31, 2016*

Our consolidated net business profit from our Commercial Banking segment increased by ¥83 billion from ¥813 billion for the fiscal year ended March 31, 2016 to ¥896 billion for the fiscal year ended March 31, 2017. This was due to an increase in net interest income, which was partially offset by an increase in general and administrative expenses.

Our consolidated net business profit from the Bank's four business units decreased by ¥86 billion from ¥863 billion for the fiscal year ended March 31, 2016 to ¥777 billion for the fiscal year ended March 31, 2017.

The difference between the profit from our Commercial Banking segment and that from the Bank's four business units for the fiscal year ended March 31, 2017 was primarily due to dividends of ¥200 billion from SMBC Nikko Securities, which were included in net interest income of the Bank's Others. Those dividends were eliminated in the consolidated financial statements as internal transactions between our Group companies.

### *The Bank's Wholesale Banking Unit*

Both gross profit and consolidated net business profit from the Bank's Wholesale Banking Unit decreased by ¥17 billion and ¥11 billion from ¥545 billion and ¥340 billion for the fiscal year ended March 31, 2016 to ¥528 billion and ¥329 billion for the fiscal year ended March 31, 2017, respectively. The decrease was primarily due to a decrease in net interest income, which was partially offset by an increase in net non-interest income. Net interest income decreased primarily due to a decrease in the interest rate spreads for loans, reflecting a decrease in the market interest rates and the continuing intense competition in the commercial banking industry in Japan, although loans to domestic companies increased. Net non-interest income increased primarily due to an increase in fees and commissions related to structured finance.

### *The Bank's Retail Banking Unit*

Both gross profit and consolidated net business profit from the Bank's Retail Banking Unit decreased by ¥18 billion and ¥15 billion from ¥373 billion and ¥19 billion for the fiscal year ended March 31, 2016 to ¥355 billion and ¥4 billion for the fiscal year ended March 31, 2017, respectively. Net interest income decreased primarily due to a decrease in the interest rate spreads for loans. Net non-interest income decreased primarily due to a decrease in the sales of single-premium whole life insurance.

### *The Bank's International Banking Unit*

Both gross profit and consolidated net business profit from the Bank's International Banking Unit decreased by ¥28 billion and ¥41 billion from ¥356 billion and ¥240 billion for the fiscal year ended March 31, 2016 to ¥328 billion and ¥199 billion for the fiscal year ended March 31, 2017, respectively. This was primarily due to a decrease in net interest income and an increase in general and administrative expenses related to overseas business development.

### *The Bank's Treasury Unit*

Both gross profit and consolidated net business profit from the Bank's Treasury Unit decreased by ¥22 billion and ¥20 billion from ¥294 billion and ¥265 billion for the fiscal year ended March 31, 2016 to ¥272 billion and ¥245 billion for the fiscal year ended March 31, 2017, respectively. This was primarily due to a decrease in profits from equity index-linked investment trusts.

### *Fiscal Year Ended March 31, 2016 Compared to Fiscal Year Ended March 31, 2015*

Our consolidated net business profit from our Commercial Banking segment decreased by ¥117 billion from ¥930 billion for the fiscal year ended March 31, 2015 to ¥813 billion for the fiscal year ended March 31, 2016. This was due to a decrease in net interest income and an increase in general and administrative expenses.

#### *The Bank's Wholesale Banking Unit*

Both gross profit and consolidated net business profit from the Bank's Wholesale Banking Unit decreased by ¥10 billion and ¥9 billion from ¥555 billion and ¥349 billion for the fiscal year ended March 31, 2015 to ¥545 billion and ¥340 billion for the fiscal year ended March 31, 2016, respectively. The decrease was primarily due to a decrease in net interest income, which was partially offset by an increase in net non-interest income. Net interest income decreased primarily due to a decrease in the interest rate spreads for loans as a result of the increasing lending competition in the commercial banking industry in Japan, although loans to domestic companies increased. Net non-interest income increased primarily due to an increase in fees and commissions related to loan syndication and structured finance.

#### *The Bank's Retail Banking Unit*

Both gross profit and consolidated net business profit from the Bank's Retail Banking Unit decreased by ¥14 billion and ¥18 billion from ¥387 billion and ¥37 billion for the fiscal year ended March 31, 2015 to ¥373 billion and ¥19 billion for the fiscal year ended March 31, 2016, respectively. Net interest income decreased primarily due to a decrease in the balance of housing loans, reflecting the intense competition in the housing loan market in Japan.

#### *The Bank's International Banking Unit*

Both gross profit and consolidated net business profit from the Bank's International Banking Unit increased by ¥11 billion and ¥1 billion from ¥345 billion and ¥239 billion for the fiscal year ended March 31, 2015 to ¥356 billion and ¥240 billion for the fiscal year ended March 31, 2016, respectively. Net non-interest income increased due to an increase in commissions related to loan transactions, reflecting our allocation of assets primarily to the United States. The increase in gross profit was partially offset by an increase in general and administrative expenses related to overseas business development.

#### *The Bank's Treasury Unit*

Both gross profit and consolidated net business profit from the Bank's Treasury Unit decreased by ¥60 billion and ¥63 billion from ¥354 billion and ¥328 billion for the fiscal year ended March 31, 2015 to ¥294 billion and ¥265 billion for the fiscal year ended March 31, 2016, respectively. This was primarily due to a decrease in net income from equity related transactions, reflecting the negative trend in the market.

### ***Leasing***

#### *Fiscal Year Ended March 31, 2017 Compared to Fiscal Year Ended March 31, 2016*

Both gross profit and consolidated net business profit in our Leasing segment increased by ¥33 billion and ¥11 billion from ¥163 billion and ¥96 billion for the fiscal year ended March 31, 2016 to ¥196 billion and ¥107 billion for the fiscal year ended March 31, 2017, respectively. This was primarily due to the inclusion of GE group's leasing business in Japan that SMFL acquired on April 1, 2016 by acquiring a 100% equity interest in GE Japan, which changed its corporate name to SMFL Capital Company, Limited on September 5, 2016.

#### *Fiscal Year Ended March 31, 2016 Compared to Fiscal Year Ended March 31, 2015*

Both gross profit and consolidated net business profit in our Leasing segment increased by ¥14 billion and ¥7 billion from ¥149 billion and ¥89 billion for the fiscal year ended March 31, 2015 to ¥163 billion and ¥96 billion for the fiscal year ended March 31, 2016, respectively. This was primarily due to an increase in net non-interest income, which was partially offset by an increase in general and administrative expenses of SMFL.

## **Securities**

### *Fiscal Year Ended March 31, 2017 Compared to Fiscal Year Ended March 31, 2016*

Both gross profit and consolidated net business profit in our Securities segment increased by ¥32 billion and ¥23 billion from ¥357 billion and ¥50 billion for the fiscal year ended March 31, 2016 to ¥389 billion and ¥73 billion for the fiscal year ended March 31, 2017, respectively. This was primarily due to an increase in net non-interest income of SMBC Nikko Securities mainly as a result of an increase in net trading income.

### *Fiscal Year Ended March 31, 2016 Compared to Fiscal Year Ended March 31, 2015*

Both gross profit and consolidated net business profit in our Securities segment decreased by ¥37 billion and ¥42 billion from ¥394 billion and ¥92 billion for the fiscal year ended March 31, 2015 to ¥357 billion and ¥50 billion for the fiscal year ended March 31, 2016, respectively. This was primarily due to a decrease in net non-interest income of SMBC Nikko Securities mainly as a result of a decrease in sales of foreign currency bonds and investment trusts.

## **Consumer Finance**

### *Fiscal Year Ended March 31, 2017 Compared to Fiscal Year Ended March 31, 2016*

Both gross profit and consolidated net business profit in our Consumer Finance segment increased by ¥29 billion and ¥11 billion from ¥612 billion and ¥214 billion for the fiscal year ended March 31, 2016 to ¥641 billion and ¥225 billion for the fiscal year ended March 31, 2017, respectively. This was primarily due to an increase in gross profit of Sumitomo Mitsui Card and SMBC Consumer Finance, which was partially offset by an increase in general and administrative expenses of Sumitomo Mitsui Card.

### *Fiscal Year Ended March 31, 2016 Compared to Fiscal Year Ended March 31, 2015*

Both gross profit and consolidated net business profit in our Consumer Finance segment increased by ¥35 billion and ¥19 billion from ¥577 billion and ¥195 billion for the fiscal year ended March 31, 2015 to ¥612 billion and ¥214 billion for the fiscal year ended March 31, 2016, respectively. This was primarily due to an increase in gross profit of Sumitomo Mitsui Card and SMBC Consumer Finance, which was partially offset by an increase in general and administrative expenses attributable to those companies.

## Financial Condition

### Assets

Our total assets increased by ¥10,978,329 million from ¥180,172,652 million at March 31, 2016 to ¥191,150,981 million at March 31, 2017, primarily due to increases in cash and deposits with banks and loans and advances.

Our assets at March 31, 2017 and 2016 were as follows.

	At March 31,	
	2017	2016
	(In millions)	
Cash and deposits with banks	¥ 47,330,155	¥ 43,144,654
Call loans and bills bought	1,872,209	1,291,366
Reverse repurchase agreements and cash collateral on securities borrowed	8,924,385	8,236,516
Trading assets	3,776,671	3,615,092
Derivative financial instruments	4,063,982	5,290,825
Financial assets at fair value through profit or loss	1,599,093	1,611,877
Investment securities	19,073,937	19,865,347
Loans and advances	95,273,845	88,862,371
Investments in associates and joint ventures	675,704	702,264
Property, plant and equipment	2,686,055	2,590,951
Intangible assets	1,096,568	1,048,093
Other assets	4,456,031	3,654,448
Current tax assets	240,385	143,534
Deferred tax assets	81,961	115,314
Total assets	<u>¥191,150,981</u>	<u>¥180,172,652</u>

### Loans and Advances

Our main operating activity is the lending business. We make loans and extend other types of credit principally to corporate and individual customers in Japan and to corporate and sovereign customers in foreign countries.

At March 31, 2017, our loans and advances were ¥95,273,845 million, or 50% of total assets, representing an increase of ¥6,411,474 million, or 7%, from ¥88,862,371 million at March 31, 2016. The increase in loans and advances was due to increases in both those to domestic customers and foreign customers. The increase in loans and advances to domestic customers was mainly due to increases in those to the Government of Japan and corporate customers including financing of M&A deals. The increase in loans and advances to foreign customers was mainly due to an increase in those in the Asian countries and the United States.

### Domestic

Through the Bank and other banking and non-bank subsidiaries, we make loans to a broad range of industrial, commercial and individual customers in Japan. The following table shows our outstanding loans and advances to customers whose domiciles are in Japan, classified by industry, before deducting the allowance for loan losses, and adjusting unearned income, unamortized premiums-net and deferred loan fees-net at the dates indicated.

	At March 31,	
	2017	2016
	(In millions)	
Manufacturing . . . . .	¥ 9,578,147	¥ 8,298,576
Agriculture, forestry, fisheries and mining . . . . .	174,021	184,314
Construction . . . . .	1,151,989	1,169,900
Transportation, communications and public enterprises . . . . .	5,365,225	5,258,899
Wholesale and retail . . . . .	5,721,005	5,548,103
Finance and insurance . . . . .	2,844,546	2,684,865
Real estate and goods rental and leasing . . . . .	10,101,846	9,587,757
Services . . . . .	4,885,247	4,960,352
Municipalities . . . . .	1,216,211	1,374,306
Lease financing . . . . .	2,706,641	2,212,048
Consumer <sup>(1)</sup> . . . . .	19,096,755	18,935,521
Others <sup>(2)</sup> . . . . .	5,178,461	2,989,278
<b>Total domestic . . . . .</b>	<b>¥68,020,094</b>	<b>¥63,203,919</b>

(1) The balance in Consumer mainly consists of housing loans. The housing loan balances amounted to ¥13,766,771 million and ¥13,984,755 million at March 31, 2017 and 2016, respectively.

(2) The balance in Others includes loans and advances to the Government of Japan.

### Foreign

The following table shows the outstanding loans and advances to our customers whose domiciles are not in Japan, classified by industry, before deducting the allowance for loan losses, and adjusting unearned income, unamortized premiums-net and deferred loan fees-net at the dates indicated.

	At March 31,	
	2017	2016
	(In millions)	
Public sector . . . . .	¥ 299,746	¥ 236,290
Financial institutions . . . . .	4,588,001	4,067,764
Commerce and industry . . . . .	21,041,905	20,451,545
Lease financing . . . . .	404,658	357,072
Others . . . . .	1,836,322	1,481,455
<b>Total foreign . . . . .</b>	<b>¥28,170,632</b>	<b>¥26,594,126</b>

### Allowance for Loan Losses

We calculate the allowance for loan losses using the latest assignment of obligor grades (our internal credit rating) and supplementary data such as the borrowers' operating cash flows, realizable value of collateral and recent economic conditions.

*Fiscal Year Ended March 31, 2017 Compared to Fiscal Year Ended March 31, 2016*

For the fiscal year ended March 31, 2017, the allowance for loan losses decreased by ¥42,261 million, or 6%, from ¥722,717 million at March 31, 2016 to ¥680,456 million at March 31, 2017. The balance of the allowance for loan losses increases when the provision for loan losses is recognized and decreases when charge-offs are recognized through the sales of loans and write-offs. As we recorded a provision for loan losses of ¥141,457 million and charge-offs of ¥190,508 million for the fiscal year ended March 31, 2017, and charge-offs exceeded the provision for loan losses, the overall allowance for loan losses decreased.

The provision for loan losses increased by ¥22,707 million from ¥118,750 million for the fiscal year ended March 31, 2016 to ¥141,457 million for the fiscal year ended March 31, 2017. The increase was primarily due to an increase in the provision for loan losses related to our domestic customers.

Charge-offs decreased by ¥3,141 million from the previous fiscal year to ¥190,508 million for the fiscal year ended March 31, 2017. Charge-offs of domestic loans and advances decreased by ¥16,058 million compared to the previous fiscal year to ¥157,373 million for the fiscal year ended March 31, 2017, primarily due to a decrease in charge-offs related to customers from the real estate and goods rental and leasing. Charge-offs of foreign loans and advances increased by ¥12,917 million compared to the previous fiscal year to ¥33,135 million for the fiscal year ended March 31, 2017, primarily due to an increase in charge-offs related to customers from the commerce and industry.

*Fiscal Year Ended March 31, 2016 Compared to Fiscal Year Ended March 31, 2015*

For the fiscal year ended March 31, 2016, the allowance for loan losses decreased by ¥70,835 million, or 9%, from ¥793,552 million at March 31, 2015 to ¥722,717 million at March 31, 2016. As we recorded a provision for loan losses of ¥118,750 million and charge-offs of ¥193,649 million for the fiscal year ended March 31, 2016, and charge-offs exceeded the provision for loan losses, the overall allowance for loan losses decreased.

The provision for loan losses increased by ¥39,198 million from ¥79,552 million for the fiscal year ended March 31, 2015 to ¥118,750 million for the fiscal year ended March 31, 2016. The increase was primarily due to an increase in the provision for loan losses related to our foreign customers, especially resource-related companies, reflecting a decrease in natural resource prices.

Charge-offs decreased by ¥56,247 million from the previous fiscal year to ¥193,649 million for the fiscal year ended March 31, 2016. Charge-offs of domestic loans and advances decreased by ¥67,232 million compared to the previous fiscal year to ¥173,431 million for the fiscal year ended March 31, 2016, primarily due to a decrease in charge-offs related to customers from the real estate and goods rental and leasing, and wholesale and retail industries. Charge-offs of foreign loans and advances increased by ¥10,985 million compared to the previous fiscal year to ¥20,218 million for the fiscal year ended March 31, 2016, primarily due to an increase in charge-offs related to customers from the commerce and industry.

The following table shows our allowance for loan losses for each of the periods indicated.

	<b>For the fiscal year ended March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	(In millions)		
Allowance for loan losses at beginning of period	¥722,717	¥793,552	¥950,665
Provision for loan losses	141,457	118,750	79,552
Charge-offs:			
Domestic	157,373	173,431	240,663
Foreign	33,135	20,218	9,233
Total	<u>190,508</u>	<u>193,649</u>	<u>249,896</u>
Recoveries:			
Domestic	9,852	9,477	9,517
Foreign	445	871	380
Total	<u>10,297</u>	<u>10,348</u>	<u>9,897</u>
Net charge-offs	180,211	183,301	239,999
Others <sup>(1)</sup>	(3,507)	(6,284)	3,334
Allowance for loan losses at end of period	<u>¥680,456</u>	<u>¥722,717</u>	<u>¥793,552</u>

(1) Others mainly include foreign exchange translations for the fiscal years ended March 31, 2017, 2016 and 2015.

### ***Impaired Loans and Advances***

A portion of the total domestic and foreign loans and advances consists of impaired loans and advances, which are comprised of “potentially bankrupt, effectively bankrupt and bankrupt (loans and advances),” “past due three months or more (loans),” “restructured (loans)” and “other impaired (loans and advances).” The loans and advances for which management has serious doubts about the ability of the borrowers to comply in the near future with the repayment terms are wholly included in impaired loans and advances.

“Potentially bankrupt, effectively bankrupt and bankrupt (loans and advances)” comprise loans and advances to borrowers that are perceived to have a high risk of falling into bankruptcy, may not have been legally or formally declared bankrupt but are essentially bankrupt, or have been legally or formally declared bankrupt.

Loans classified as “past due three months or more (loans)” represent those loans that are three months or more past due as to principal or interest, which are not included in “potentially bankrupt, effectively bankrupt and bankrupt (loans and advances).”

The category “restructured (loans)” comprises loans not included above for which the terms of the loans have been modified to grant concessions because of problems with the borrower.

“Other impaired (loans and advances)” represent impaired loans and advances, which are not included in “potentially bankrupt, effectively bankrupt and bankrupt (loans and advances),” “past due three months or more (loans),” or “restructured (loans),” but for which information about credit problems cause management to classify them as impaired loans and advances.



The following table shows the distribution of impaired loans and advances by “potentially bankrupt, effectively bankrupt and bankrupt (loans and advances),” “past due three months or more (loans),” “restructured (loans)” and “other impaired (loans and advances)” at March 31, 2017 and 2016 by domicile and type of industry of the borrowers. At March 31, 2017, gross impaired loans and advances were ¥1,228,688 million, a decrease of ¥123,899 million from ¥1,352,587 million at March 31, 2016. The ratio of gross impaired loans and advances to the outstanding loans and advances before deducting the allowance for loan losses, and adjusting unearned income, unamortized premiums-net and deferred loan fees-net was 1.3% at March 31, 2017, a decrease of 0.2 percentage points from 1.5% at March 31, 2016.

	At March 31,	
	2017	2016
	(In millions)	
<b>Potentially bankrupt, effectively bankrupt and bankrupt (loans and advances):</b>		
Domestic:		
Manufacturing .....	¥ 106,178	¥ 119,318
Agriculture, forestry, fisheries and mining .....	2,250	2,843
Construction .....	24,430	25,932
Transportation, communications and public enterprises .....	23,692	38,008
Wholesale and retail .....	104,472	125,241
Finance and insurance .....	4,135	8,302
Real estate and goods rental and leasing .....	126,179	133,324
Services .....	91,943	126,781
Lease financing .....	7,513	16,122
Consumer .....	194,721	213,931
Others .....	25,059	32,503
Total domestic .....	710,572	842,305
Foreign:		
Public sector .....	—	31
Financial institutions .....	29	28
Commerce and industry .....	157,227	148,475
Lease financing .....	11,892	11,104
Others .....	23,890	5,682
Total foreign .....	193,038	165,320
Total .....	903,610	1,007,625
<b>Past due three months or more (loans):</b>		
Domestic .....	20,808	21,861
Foreign .....	11,449	7,962
Total .....	32,257	29,823
<b>Restructured (loans):</b>		
Domestic .....	155,100	164,035
Foreign .....	25,741	22,401
Total .....	180,841	186,436
<b>Other impaired (loans and advances):</b>		
Domestic .....	103,777	126,211
Foreign .....	8,203	2,492
Total .....	111,980	128,703
Gross impaired loans and advances .....	1,228,688	1,352,587
Less: Allowance for loan losses for impaired loans and advances .....	(532,451)	(613,510)
Net impaired loans and advances .....	¥ 696,237	¥ 739,077

In addition to the discussion in this section, see Note 45 “Financial Risk Management—Credit Risk” to our consolidated financial statements included elsewhere in this annual report.

### *Investment Securities*

Our investment securities, including available-for-sale financial assets and held-to-maturity investments, totaled ¥19,073,937 million at March 31, 2017, a decrease of ¥791,410 million, or 4%, from ¥19,865,347 million at March 31, 2016. The decrease in our investment securities was primarily due to a decrease in our holdings of Japanese government bonds.

Our bond portfolio is principally held for asset and liability management purposes. Our bond portfolio mostly consisted of Japanese government bonds, U.S. Treasury securities and bonds issued by other governments and official institutions.

Our held-to-maturity investments amounted to ¥1,173,419 million at March 31, 2017, a decrease of ¥1,094,123 million, or 48%, from ¥2,267,542 million at March 31, 2016, primarily due to redemptions at maturity of Japanese government bonds, which are the principal components of our held-to-maturity investments portfolio.

Domestic available-for-sale financial assets included ¥6,169,004 million of domestic debt instruments at March 31, 2017, a decrease of ¥698,288 million, or 10%, from ¥6,867,292 million at March 31, 2016. The decrease was primarily due to a decrease in our holdings of Japanese government bonds. Moreover, we manage the average duration of our Japanese government bonds to be short, and Japanese government bonds with a maturity of less than five years accounted for 93% of our total Japanese government bonds at March 31, 2017. As for our foreign available-for-sale financial assets, we had ¥5,954,766 million of foreign debt instruments, which was an increase of ¥472,148 million, or 9%, from ¥5,482,618 million at March 31, 2016. Most of our foreign debt instruments, including mortgage-backed securities, are issued or guaranteed by foreign governments, government agencies or official institutions. The increase was primarily due to an increase in our holdings of U.S. Treasury and other U.S. government agency bonds. Net unrealized losses on our foreign debt instruments amounted to ¥128,474 million at March 31, 2017, as compared to net unrealized gains of ¥17,957 million at March 31, 2016. This was primarily due to a rise in U.S. interest rates. Of our foreign debt instruments, 67% had a maturity of less than five years.

We had ¥5,117,629 million of domestic equity instruments and ¥659,119 million of foreign equity instruments at March 31, 2017. Our domestic equity instruments, which consisted principally of publicly traded Japanese stocks and included common and preferred stocks issued by our customers, increased by ¥449,330 million, or 10%, from ¥4,668,299 million at March 31, 2016. Net unrealized gains on our domestic equity instruments increased by ¥347,234 million, or 15%, from ¥2,348,888 million at March 31, 2016 to ¥2,696,122 million at March 31, 2017. The increase was primarily due to a rise in the market prices of these stocks in a market environment where, as described in “Item 5. Operating and Financial Review and Prospects—Overview—Operating Environment,” the Nikkei Stock Average rose from ¥16,758.67 at March 31, 2016 to ¥18,909.26 at March 31, 2017. Net unrealized gains on our foreign equity instruments increased by ¥91,868 million, or 45%, from ¥204,580 million at March 31, 2016 to ¥296,448 million at March 31, 2017, mainly reflecting favorable conditions in overseas stock markets.

We recognize the risks associated with our equity portfolio, owing to its volatility, and have been actively looking to minimize the negative effect of holding a large equity portfolio through economic hedging and derivative transactions.

We have no transactions pursuant to repurchase agreements, securities lending transactions or other transactions involving the transfer of financial assets with an obligation to repurchase such transferred assets that are treated as sales for accounting purposes.

The following tables show the amortized cost, gross unrealized gains and losses and fair value of our investment securities, which are classified as held-to-maturity investments and available-for-sale financial assets at March 31, 2017, 2016 and 2015.

	At March 31, 2017			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In millions)			
<b>Held-to-maturity investments:</b>				
Domestic:				
Japanese government bonds . . . . .	¥ 1,160,751	¥ 6,865	¥ —	¥ 1,167,616
Japanese municipal bonds . . . . .	7,463	12	—	7,475
Japanese corporate bonds . . . . .	5,205	23	—	5,228
Total domestic . . . . .	1,173,419	6,900	—	1,180,319
Foreign . . . . .	—	—	—	—
Total . . . . .	¥ 1,173,419	¥ 6,900	¥ —	¥ 1,180,319
<b>Available-for-sale financial assets:</b>				
Domestic:				
Japanese government bonds . . . . .	¥ 5,704,875	¥ 23,952	¥ 6,153	¥ 5,722,674
Japanese municipal bonds . . . . .	83,253	77	550	82,780
Japanese corporate bonds . . . . .	361,656	2,459	565	363,550
Total domestic debt instruments . . .	6,149,784	26,488	7,268	6,169,004
Equity instruments . . . . .	2,421,507	2,699,446	3,324	5,117,629
Total domestic . . . . .	8,571,291	2,725,934	10,592	11,286,633
Foreign:				
U.S. Treasury and other U.S. government agency bonds . . . . .	3,565,748	2,352	99,837	3,468,263
Bonds issued by other governments and official institutions . . . . .	1,687,959	512	18,618	1,669,853
Mortgage-backed securities . . . . .	646,206	33	12,610	633,629
Other debt instruments . . . . .	183,327	300	606	183,021
Total foreign debt instruments . . . . .	6,083,240	3,197	131,671	5,954,766
Equity instruments . . . . .	362,671	296,706	258	659,119
Total foreign . . . . .	6,445,911	299,903	131,929	6,613,885
Total . . . . .	¥ 15,017,202	¥ 3,025,837	¥ 142,521	¥ 17,900,518

At March 31, 2016				
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
(In millions)				
<b>Held-to-maturity investments:</b>				
Domestic:				
Japanese government bonds . . . . .	¥ 2,241,491	¥ 16,574	¥ —	¥ 2,258,065
Japanese municipal bonds . . . . .	20,849	26	3	20,872
Japanese corporate bonds . . . . .	5,202	28	—	5,230
Total domestic . . . . .	2,267,542	16,628	3	2,284,167
Foreign . . . . .	—	—	—	—
Total . . . . .	¥ 2,267,542	¥ 16,628	¥ 3	¥ 2,284,167
<b>Available-for-sale financial assets:</b>				
Domestic:				
Japanese government bonds . . . . .	¥ 6,481,951	¥ 47,906	¥ 1,282	¥ 6,528,575
Japanese municipal bonds . . . . .	31,081	157	17	31,221
Japanese corporate bonds . . . . .	303,894	3,687	85	307,496
Total domestic debt instruments . . .	6,816,926	51,750	1,384	6,867,292
Equity instruments . . . . .	2,319,411	2,385,454	36,566	4,668,299
Total domestic . . . . .	9,136,337	2,437,204	37,950	11,535,591
Foreign:				
U.S. Treasury and other U.S. government agency bonds . . . . .	2,243,096	5,237	2,203	2,246,130
Bonds issued by other governments and official institutions . . . . .	2,130,938	10,107	2,052	2,138,993
Mortgage-backed securities . . . . .	978,315	6,692	486	984,521
Other debt instruments . . . . .	112,312	713	51	112,974
Total foreign debt instruments . . . . .	5,464,661	22,749	4,792	5,482,618
Equity instruments . . . . .	375,016	227,025	22,445	579,596
Total foreign . . . . .	5,839,677	249,774	27,237	6,062,214
Total . . . . .	¥ 14,976,014	¥ 2,686,978	¥ 65,187	¥ 17,597,805

					At March 31, 2015				
					Amortized	Gross unrealized	Gross unrealized	Fair value	
					cost	gains	losses		
					(In millions)				
<b>Held-to-maturity investments:</b>									
Domestic:									
Japanese government bonds	¥	3,282,787	¥	20,441	¥	—	¥	3,303,228	
Japanese municipal bonds		67,843		222		—		68,065	
Japanese corporate bonds		46,265		174		—		46,439	
Total domestic		3,396,895		20,837		—		3,417,732	
Foreign		—		—		—		—	
Total	¥	3,396,895	¥	20,837	¥	—	¥	3,417,732	
<b>Available-for-sale financial assets:</b>									
Domestic:									
Japanese government bonds	¥	9,376,173	¥	17,318	¥	3,532	¥	9,389,959	
Japanese municipal bonds		51,882		281		13		52,150	
Japanese corporate bonds		229,726		1,928		63		231,591	
Total domestic debt instruments		9,657,781		19,527		3,608		9,673,700	
Equity instruments		2,644,645		3,033,813		2,087		5,676,371	
Total domestic		12,302,426		3,053,340		5,695		15,350,071	
Foreign:									
U.S. Treasury and other U.S. government agency bonds		2,064,938		2,497		5,392		2,062,043	
Bonds issued by other governments and official institutions		2,178,318		27,976		632		2,205,662	
Mortgage-backed securities		257,277		231		408		257,100	
Other debt instruments		213,815		1,621		493		214,943	
Total foreign debt instruments		4,714,348		32,325		6,925		4,739,748	
Equity instruments		435,224		317,801		83		752,942	
Total foreign		5,149,572		350,126		7,008		5,492,690	
Total	¥	17,451,998	¥	3,403,466	¥	12,703	¥	20,842,761	

The following tables show the fair value and gross unrealized losses of our investment securities, aggregated by the length of time that the individual securities have been in a continuous unrealized loss position at March 31, 2017, 2016 and 2015. None of the available-for-sale equity instruments included in the tables have been in a continuous unrealized loss position for twelve months or more, since a significant or prolonged decline in the fair value of an equity instrument below its cost is considered to be an objective evidence of impairment and in such case the unrealized losses are reclassified from equity to profit or loss.

		At March 31, 2017					
		Less than twelve months		Twelve months or more		Total	
		Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
		(In millions)					
<b>Held-to-maturity investments:</b>							
Domestic:							
Japanese government bonds ..	¥	—	¥	—	¥	—	¥
Japanese municipal bonds ....		—		—		—	
Japanese corporate bonds ....		—		—		—	
Total domestic .....		—		—		—	
Foreign .....		—		—		—	
Total .....	¥	—	¥	—	¥	—	¥
<b>Available-for-sale financial assets:</b>							
Domestic:							
Japanese government bonds ..	¥	1,427,268	¥	6,153	¥	—	¥
Japanese municipal bonds ....		68,154		543		2,383	
Japanese corporate bonds ....		126,267		560		5	
Total domestic debt instruments .....		1,621,689		7,256		4,690	
Equity instruments .....		170,399		3,324		—	
Total domestic .....		1,792,088		10,580		4,690	
Foreign:							
U.S. Treasury and other U.S. government agency bonds ..		1,590,352		40,549		685,367	
Bonds issued by other governments and official institutions .....		1,238,536		18,587		60,616	
Mortgage-backed securities ..		618,451		12,370		10,317	
Other debt instruments .....		61,230		350		6,182	
Total foreign debt instruments .....		3,508,569		71,856		762,482	
Equity instruments .....		10,105		258		—	
Total foreign .....		3,518,674		72,114		762,482	
Total .....	¥	5,310,762	¥	82,694	¥	767,172	¥
						59,827	
							¥
							¥

At March 31, 2016

	Less than twelve months		Twelve months or more		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
(In millions)						
<b>Held-to-maturity investments:</b>						
Domestic:						
Japanese government bonds . . .	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —
Japanese municipal bonds . . . . .	4,386	3	—	—	4,386	3
Japanese corporate bonds . . . . .	—	—	—	—	—	—
Total domestic . . . . .	4,386	3	—	—	4,386	3
Foreign . . . . .	—	—	—	—	—	—
Total . . . . .	¥ 4,386	¥ 3	¥ —	¥ —	¥ 4,386	¥ 3
<b>Available-for-sale financial assets:</b>						
Domestic:						
Japanese government bonds . . .	¥ 675,693	¥ 1,282	¥ —	¥ —	¥ 675,693	¥ 1,282
Japanese municipal bonds . . . . .	3,893	16	775	1	4,668	17
Japanese corporate bonds . . . . .	42,692	82	860	3	43,552	85
Total domestic debt instruments . . . . .	722,278	1,380	1,635	4	723,913	1,384
Equity instruments . . . . .	425,494	36,566	—	—	425,494	36,566
Total domestic . . . . .	1,147,772	37,946	1,635	4	1,149,407	37,950
Foreign:						
U.S. Treasury and other U.S. government agency bonds . . .	857,102	2,164	22,474	39	879,576	2,203
Bonds issued by other governments and official institutions . . . . .	938,377	2,012	32,063	40	970,440	2,052
Mortgage-backed securities . . .	8,294	44	12,013	442	20,307	486
Other debt instruments . . . . .	44,965	30	2,077	21	47,042	51
Total foreign debt instruments . . . . .	1,848,738	4,250	68,627	542	1,917,365	4,792
Equity instruments . . . . .	160,245	22,445	—	—	160,245	22,445
Total foreign . . . . .	2,008,983	26,695	68,627	542	2,077,610	27,237
Total . . . . .	¥ 3,156,755	¥ 64,641	¥ 70,262	¥ 546	¥ 3,227,017	¥ 65,187

At March 31, 2015

	Less than twelve months		Twelve months or more		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
(In millions)						
<b>Held-to-maturity investments:</b>						
Domestic:						
Japanese government bonds . . .	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —
Japanese municipal bonds . . . .	—	—	—	—	—	—
Japanese corporate bonds . . . . .	—	—	—	—	—	—
Total domestic . . . . .	—	—	—	—	—	—
Foreign . . . . .	—	—	—	—	—	—
Total . . . . .	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —
<b>Available-for-sale financial assets:</b>						
Domestic:						
Japanese government bonds . . .	¥ 2,067,924	¥ 3,531	¥ 22	¥ 1	¥ 2,067,946	¥ 3,532
Japanese municipal bonds . . . .	1,550	8	1,476	5	3,026	13
Japanese corporate bonds . . . . .	36,668	61	498	2	37,166	63
Total domestic debt instruments . . . . .	2,106,142	3,600	1,996	8	2,108,138	3,608
Equity instruments . . . . .	37,689	2,087	—	—	37,689	2,087
Total domestic . . . . .	2,143,831	5,687	1,996	8	2,145,827	5,695
Foreign:						
U.S. Treasury and other U.S. government agency bonds . . .	387,664	2,535	441,641	2,857	829,305	5,392
Bonds issued by other governments and official institutions . . . . .	633,935	604	23,507	28	657,442	632
Mortgage-backed securities . . .	—	—	15,208	408	15,208	408
Other debt instruments . . . . .	89,627	110	1,909	383	91,536	493
Total foreign debt instruments . . . . .	1,111,226	3,249	482,265	3,676	1,593,491	6,925
Equity instruments . . . . .	5,066	83	—	—	5,066	83
Total foreign . . . . .	1,116,292	3,332	482,265	3,676	1,598,557	7,008
Total . . . . .	¥ 3,260,123	¥ 9,019	¥ 484,261	¥ 3,684	¥ 3,744,384	¥ 12,703



### **Trading Assets**

The following table shows our trading assets at March 31, 2017 and 2016. Our trading assets were ¥3,776,671 million at March 31, 2017, an increase of ¥161,579 million from ¥3,615,092 million at March 31, 2016. The increase was primarily due to an increase in our holdings of Japanese government bonds.

	At March 31,	
	2017	2016
	(In millions)	
Debt instruments	¥ 3,339,928	¥ 3,174,309
Equity instruments	436,743	440,783
Total trading assets	<u>¥ 3,776,671</u>	<u>¥ 3,615,092</u>

### **Financial Assets at Fair Value Through Profit or Loss**

The following table shows the fair value of our financial assets at fair value through profit or loss at March 31, 2017 and 2016. The fair value was ¥1,599,093 million at March 31, 2017, a decrease of ¥12,784 million from ¥1,611,877 million at March 31, 2016. The decrease was primarily due to a decrease in our holdings of equity instruments.

	At March 31,	
	2017	2016
	(In millions)	
Debt instruments	¥ 1,582,957	¥ 1,582,571
Equity instruments	16,136	29,306
Total financial assets at fair value through profit or loss	<u>¥ 1,599,093</u>	<u>¥ 1,611,877</u>

### **Liabilities**

Our total liabilities increased by ¥10,133,145 million from ¥169,130,553 million at March 31, 2016 to ¥179,263,698 million at March 31, 2017, primarily due to increases in deposits, repurchase agreements and cash collateral on securities lent and borrowings.

The following table shows our liabilities at March 31, 2017 and 2016.

	At March 31,	
	2017	2016
	(In millions)	
Deposits	¥130,295,290	¥125,940,797
Call money and bills sold	2,088,020	1,220,456
Repurchase agreements and cash collateral on securities lent	9,424,506	6,839,474
Trading liabilities	2,071,584	2,197,673
Derivative financial instruments	3,889,694	5,086,083
Borrowings	12,245,943	9,914,129
Debt securities in issue	11,165,623	10,829,612
Provisions	194,700	262,401
Other liabilities	7,488,766	6,410,733
Current tax liabilities	79,371	93,307
Deferred tax liabilities	320,201	335,888
Total liabilities	<u>¥179,263,698</u>	<u>¥169,130,553</u>

## Deposits

We offer a wide range of standard banking accounts through the offices of our banking subsidiaries in Japan, including non-interest-bearing demand deposits, interest-bearing demand deposits, deposits at notice, time deposits and negotiable certificates of deposit. Domestic deposits, approximately 80% of total deposits, are our principal source of funds for our domestic operations. The deposits in the domestic offices of our banking subsidiaries are principally from individuals and private corporations, with the balance from governmental bodies (including municipal authorities) and financial institutions.

The Bank's foreign offices accept deposits mainly in U.S. dollars, but also in yen and other currencies, and are active participants in the Euro-currency market as well as the United States domestic money market. Foreign deposits mainly consist of stable types of deposits, such as deposits at notice, time deposits, and negotiable certificates of deposit. These deposits typically pay interest determined with reference to market rates such as LIBOR.

Our deposit balances at March 31, 2017 were ¥130,295,290 million, an increase of ¥4,354,493 million, or 3%, from ¥125,940,797 million at March 31, 2016, primarily due to increases in demand deposits at domestic offices and time deposits at foreign offices, which were partially offset by a decrease in negotiable certificates of deposit at foreign offices.

The following table shows a breakdown of our domestic and foreign offices' deposits at the dates indicated.

	At March 31,	
	2017	2016
	(In millions)	
<b>Domestic offices:</b>		
Non-interest-bearing demand deposits	¥ 18,737,973	¥ 17,566,123
Interest-bearing demand deposits	48,879,089	44,975,104
Deposits at notice	1,066,201	874,581
Time deposits	22,269,409	22,921,709
Negotiable certificates of deposit	6,021,236	6,451,869
Others	7,290,869	7,242,800
Total domestic offices	<u>104,264,777</u>	<u>100,032,186</u>
<b>Foreign offices:</b>		
Non-interest-bearing demand deposits	1,115,579	1,097,531
Interest-bearing demand deposits	2,402,906	1,865,098
Deposits at notice	9,264,068	8,819,990
Time deposits	7,256,466	6,222,716
Negotiable certificates of deposit	5,859,702	7,797,966
Others	131,792	105,310
Total foreign offices	<u>26,030,513</u>	<u>25,908,611</u>
Total deposits	<u>¥130,295,290</u>	<u>¥125,940,797</u>

### ***Borrowings***

Borrowings include short-term borrowings, unsubordinated and subordinated long-term borrowings, liabilities associated with securitization transactions of our own assets, and lease obligations. At March 31, 2017, our borrowings were ¥12,245,943 million, an increase of ¥2,331,814 million, or 24%, from ¥9,914,129 million at March 31, 2016, primarily due to an increase in short-term borrowings, which was partially offset by a decrease in unsubordinated long-term borrowings.

At March 31, 2017, our short-term borrowings accounted for 62% of our total borrowings, and our long-term borrowings accounted for 28% of our total borrowings.

The following table shows the balances with respect to our borrowings at March 31, 2017 and 2016.

	At March 31,	
	2017	2016
	(In millions)	
Short-term borrowings	¥ 7,546,496	¥ 3,073,509
Long-term borrowings:		
Unsubordinated	3,138,582	5,312,744
Subordinated	284,200	295,200
Liabilities associated with securitization transactions	1,169,741	1,126,985
Lease obligations	106,924	105,691
Total borrowings	<u>¥12,245,943</u>	<u>¥ 9,914,129</u>

For more information, see Note 18 “Borrowings” to our consolidated financial statements included elsewhere in this annual report, which sets forth summaries of short- and long-term borrowings with their contractual interest rates and currencies.

### ***Debt Securities in Issue***

Debt securities in issue at March 31, 2017 were ¥11,165,623 million, an increase of ¥336,011 million, or 3%, from ¥10,829,612 million at March 31, 2016, primarily due to an increase in bonds, which was partially offset by a decrease in commercial paper, reflecting our efforts to expand foreign currency funding sources.

	At March 31,	
	2017	2016
	(In millions)	
Commercial paper	¥ 3,518,346	¥ 4,169,515
Bonds	5,940,252	4,819,155
Subordinated bonds	1,707,025	1,840,942
Total debt securities in issue	<u>¥11,165,623</u>	<u>¥10,829,612</u>

For additional information, see Note 19 “Debt Securities in Issue” to our consolidated financial statements included elsewhere in this annual report, which sets forth summaries of debt securities in issue with their contractual interest rates and currencies.

In the normal course of business, we enter into contractual obligations that require future cash payments. “Item 5.F. Tabular Disclosure of Contractual Obligations” sets forth a summary of our contractual cash obligations at March 31, 2017.

### Total Equity

Our total equity increased by ¥845,184 million from ¥11,042,099 million at March 31, 2016 to ¥11,887,283 million at March 31, 2017, primarily due to an increase in retained earnings, which mainly reflected our net profit, and a decrease in treasury stock as a result of selling our shares held as treasury stock. For more information, see Note 24 “Shareholders’ Equity” and Note 25 “Non-controlling Interests and Equity Attributable to Other Equity Instruments Holders” to our consolidated financial statements included elsewhere in this annual report.

	At March 31,	
	2017	2016
	(In millions)	
Capital stock	¥ 2,337,896	¥ 2,337,896
Capital surplus	864,052	863,503
Retained earnings	4,609,496	4,186,683
Other reserves	2,134,042	1,991,955
Treasury stock	(12,913)	(175,381)
Equity attributable to shareholders of Sumitomo Mitsui Financial Group, Inc.	9,932,573	9,204,656
Non-controlling interests	1,505,001	1,537,548
Equity attributable to other equity instruments holders	449,709	299,895
Total equity	¥ 11,887,283	¥ 11,042,099

### Reconciliation with Japanese GAAP

Our consolidated financial statements are prepared in accordance with IFRS as summarized in Note 2 “Summary of Significant Accounting Policies” to our consolidated financial statements included elsewhere in this annual report. These policies differ in some respects from Japanese GAAP. Under Japanese banking regulations, we report our annual financial results prepared under Japanese GAAP. To show the major reconciling items between our IFRS and Japanese GAAP consolidated financial statements, we have provided below, with respect to our most recent fiscal year, a reconciliation of consolidated net profit and total equity under IFRS with those amounts under Japanese GAAP.

	At and for the fiscal year ended March 31, 2017	
	Total equity	Net profit
	(In millions)	
IFRS	¥ 11,887,283	¥ 740,586
Differences arising from different accounting for:		
1. Scope of consolidation	124,807	12,013
2. Derivative financial instruments	118,348	110,885
3. Investment securities	(221,535)	8,755
4. Loans and advances	22,798	735
5. Investments in associates and joint ventures	(68,581)	15,940
6. Property, plant and equipment	(10,504)	(1,256)
7. Lease accounting	3,090	3,656
8. Defined benefit plans	53,622	(22,912)
9. Deferred tax assets	(46,363)	(7,525)
10. Foreign currency translation	—	(3,567)
11. Classification of equity and liability	(452,797)	(8,406)
Others	(155,980)	(16,889)
Tax effect of the above	(19,902)	(23,661)
Japanese GAAP	¥ 11,234,286	¥ 808,354

The explanations below summarize certain differences between IFRS and Japanese GAAP that may be significant. The paragraphs below refer to the corresponding items as set forth in the table above.

### **1. Scope of consolidation**

Under Japanese GAAP, we consolidate an entity when we effectively control the decision making body of the entity's operating and financing policies. Control is generally presumed to exist when we own more than half of the voting power, or own from 40% to 50% of the voting power and certain facts exist indicating control. Certain entities established for securitization are presumed not to be controlled. Under IFRS, we consolidate an entity when we control the entity. Control is generally presumed to exist when we are exposed, or have rights, to variable returns from our involvement with the entity and have the ability to affect those returns through our power over the entity. The existence and effect of potential voting rights that are deemed to be substantive are taken into account when assessing the control. When assessing control of an entity under IFRS, we apply a single consolidation model to all types of entities, irrespective of their nature. This results in a difference in the scope of consolidation between Japanese GAAP and IFRS. Most significantly, certain entities designed for special purpose such as securitization, usually in the form of trusts under the Trust Act of Japan, are not consolidated under Japanese GAAP but consolidated under IFRS. Accordingly, both the cumulative gains on transfers of financial assets to these securitization vehicles and amortization of our retained subordinate interest under Japanese GAAP were not recognized under IFRS due to consolidation of such vehicles.

### **2. Derivative financial instruments**

Under Japanese GAAP, an embedded derivative shall be separately accounted for when the host contract may suffer losses arising from the embedded derivative. Also, an entity may separately account for an embedded derivative if the entity manages it separately, even though the criteria for separation are not fully met. Under IFRS, an embedded derivative shall be separated from the host contract and accounted for as a derivative if, and only if its economic characteristics and risks are not closely related to those of the host contract. Accordingly, certain embedded derivatives that are separately accounted for under Japanese GAAP but do not meet the criteria for separation under IFRS are adjusted such that they are combined with the host contract, and vice versa. In addition, the separation of the embedded derivatives from the host contract is adjusted so as not to result in any gain or loss at initial recognition under IFRS.

We apply hedge accounting under Japanese GAAP. However, IFRS imposes onerous documentation and effectiveness testing requirements on entities wishing to apply hedge accounting. The result of these requirements is that it is more difficult to achieve hedge accounting under IFRS than under Japanese GAAP, and the effects of hedge accounting under Japanese GAAP have therefore been reversed under IFRS.

Japanese GAAP and IFRS require OTC derivatives to be measured at fair value. In principle, there is no significant difference in the definitions of fair value, but in practice there is diversity in the application of valuation techniques used for fair value under Japanese GAAP and IFRS. Therefore to meet the requirements of fair value under IFRS, adjustments have been made to the fair values under Japanese GAAP to reflect credit risk adjustments for OTC derivatives. Certain guarantees under Japanese GAAP do not meet the definition of a financial guarantee under IFRS but meet that of a derivative. These guarantees are measured at fair value and the change in fair value is recognized in the consolidated income statement under IFRS.

### **3. Investment securities**

Under Japanese GAAP, certain financial assets classified as available-for-sale, such as unlisted stocks, are measured at cost. However, under IFRS available-for-sale financial assets (and financial assets at fair value through profit or loss) should be measured at fair value. The fair value of financial instruments where there is no quoted price in an active market is determined by using valuation techniques. In addition, the fair values of financial instruments under Japanese GAAP have been adjusted in order to meet the requirements of fair value

under IFRS. For example, we use the last 1-month average of the closing transaction prices for the fair value measurement of available-for-sale financial assets (listed stocks) under Japanese GAAP, whereas closing spot prices are used under IFRS. Additionally under IFRS, we classify certain hybrid instruments as financial assets at fair value through profit or loss as we are unable to measure the embedded derivative separately from its host contract although it is required to separate the embedded derivative from the host contract. Accordingly, the change in fair value of such hybrid instruments is recognized in profit or loss.

Under Japanese GAAP, we recognize impairment of available-for-sale equity instruments if the decline in fair value below the cost, less previously recognized impairment loss, is in general 50% or more. Under IFRS, we assess whether there is objective evidence that available-for-sale equity instruments are impaired, including a significant or prolonged decline in the fair value below cost and other qualitative impairment indicators. Additionally, under Japanese GAAP, we reverse impairment losses recognized in a previous interim period, whereas the reversal of the impairment losses on equity instruments is not allowed under IFRS.

#### **4. Loans and advances**

Under Japanese GAAP, the reserve for possible loan losses for specifically identified significant loans is calculated by the discounted cash flow (“DCF”) method, which is based on the present value of reasonably estimated cash flows discounted at the original contractual interest rate of the loan. The reserve for possible loan losses for the remaining loans is collectively calculated using the historical loss experience, or individually calculated based on the estimated uncollectible amount considering the historical loss experience and the recoveries from collateral, guarantees and any other collectible cash flows. The historical loss experience for 1 year or 3 years, according to the obligor grade, is calculated basically based on the averaged historical results of at least the past three years. Under IFRS, the allowance for loan losses for individually significant impaired loans is calculated by the DCF method based on the best estimate of cash flows discounted at the original effective interest rate which differs from the calculation of the DCF method under Japanese GAAP. The scope of the loans that are subject to the DCF method under IFRS is wider than that under Japanese GAAP. The allowance for loan losses for the remaining loans is collectively calculated by homogeneous group using statistical methods based on the historical loss experience and incorporating the effect of the time value of money. A qualitative analysis based on related economic factors is then performed to reflect the current conditions at the end of the reporting period. The allowance for the non-impaired loan losses is calculated as incurred but not yet identified losses for the period between the impairment occurring and the loss being identified, which are different from the expected losses under Japanese GAAP.

Under Japanese GAAP, loan origination fees and costs are generally recognized in the consolidated income statement as incurred. Under IFRS, loan origination fees and costs that are incremental and directly attributable to the origination of a loan are deferred and thus, included in the calculation of the effective interest rate.

Under Japanese GAAP, loan commitments are not recognized in the consolidated statement of financial position. Provision for the credit risk on these commitments is included as part of the reserve for possible loan losses. Under IFRS, loan commitments are not recognized in the consolidated statement of financial position and a provision for the expected losses to us in relation to the loan commitments is measured based on IAS 37 “Provisions, Contingent Liabilities and Contingent Assets.” Under Japanese GAAP, all guarantee contracts are accounted for by accruing both asset and liability accounts at the nominal guarantee amount. A provision for the credit risk of the guarantee is calculated using the same method as the reserve for possible loan losses and is included as part of it. Under IFRS, a financial guarantee contract is specifically defined in IAS 39 “Financial Instruments: Recognition and Measurement” as a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of the debt instruments. Financial guarantees are initially recognized at fair value and subsequently measured at the higher of the amount determined in accordance with IAS 37 or the amount initially recognized (i.e., fair value) less, when appropriate, cumulative amortization recognized in accordance with IAS 18 “Revenue.”

## **5. Investments in associates and joint ventures**

Under Japanese GAAP, although goodwill related to investments in associates and joint ventures is included in the carrying amount of the investments, we are required to recognize and measure impairment losses only on goodwill separately from the investments if impairment indicators for the goodwill are identified. Under IFRS, for investments in associates and joint ventures, if we identify objective evidence of impairment, the entire carrying amount of the investment is tested for impairment since goodwill is not separately recognized on the initial acquisition of the investment. Additionally, the net profit of associates is adjusted for differences between Japanese GAAP and IFRS in accordance with our accounting policy prior to applying the equity method under IFRS.

## **6. Property, plant and equipment**

For certain assets that are depreciated using the declining balance method under Japanese GAAP, we apply the straight-line method of depreciation to those assets under IFRS as we consider that the straight-line method most closely reflects the expected pattern of consumption of the future economic benefits embodied in those assets. Additionally under IFRS, residual values of assets are reviewed at least at the end of each reporting period. After reviews of all categories of property, plant and equipment, the residual values of assets are considered to be zero under IFRS, whereas residual values are assigned to certain assets under Japanese GAAP.

## **7. Lease accounting**

We account for finance lease transactions without a transfer of ownership commencing before April 1, 2008 as operating leases under Japanese GAAP. However, such accounting treatment is not allowed under IFRS. Thus, we made certain adjustments for those transactions in order to comply with the accounting treatment under IFRS. From the fiscal year beginning after April 1, 2008, a new Japanese GAAP standard for lease accounting became effective, which removed the differences for finance leases (with or without a transfer of ownership) between Japanese GAAP and IFRS. Therefore, no adjustment is needed for finance lease transactions entered into after April 1, 2008.

## **8. Defined benefit plans**

Under Japanese GAAP, the present value of the defined benefit obligation is measured using the market yields of long-term Japanese government bonds as discount rates. Additionally, the discount rates for the previous reporting period can be used for the current reporting period, if the change in the present value of the defined benefit obligation caused by a change in the discount rates from the previous reporting period to the current reporting period is less than 10%. Under IFRS, the present value of the defined benefit obligation is measured by discounting the estimated timing and amount of benefit payments using the discount rates reflecting market yields on high quality corporate bonds at the end of each reporting period.

Under Japanese GAAP, the expected rates of return on plan assets for the previous reporting period can be used for the current reporting period, unless the impact of the profit or loss for the current reporting period is considered to be significant. Under IFRS, the interest cost and expected return on plan assets are replaced with a net interest amount which is calculated by applying the discount rate to the net defined benefit liability (asset).

Under Japanese GAAP, the actuarial gains and losses are recognized in other comprehensive income, and are amortized using the straight-line method. Under IFRS, actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in the year, and return on plan assets excluding interest income are recognized in other comprehensive income and are never reclassified to profit and loss.

Under Japanese GAAP, past service costs are recognized in other comprehensive income and are amortized using the straight-line method. Under IFRS, past service costs are recognized immediately in the consolidated income statement.

## **9. Deferred tax assets**

Under Japanese GAAP, we recognize deferred tax assets to the extent that the realization of the tax benefit is highly probable based on the schedule. Under IFRS, deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. For example, deferred tax assets for deductible temporary differences relating to impairment of financial instruments of which the timing of the reversal is difficult to estimate cannot be recognized under Japanese GAAP, whereas they can be recognized under IFRS to the extent that it is probable that future taxable profit will be available.

## **10. Foreign currency translation**

Under Japanese GAAP, the income statement items of foreign operations are translated into Japanese yen, our presentation currency, using the (spot) closing rate, whereas under IFRS they are translated into the presentation currency using the exchange rate at the dates of the transactions or, if the exchange rates do not fluctuate significantly, at average exchange rates. In addition, under Japanese GAAP, certain foreign operations' monetary items denominated in foreign currencies are translated into Japanese yen using the exchange rate at the end of the reporting period. However, under IFRS the monetary items for which settlement is neither planned nor likely to occur in the foreseeable future are translated using the exchange rates at the dates of initial transactions.

## **11. Classification of equity and liability**

Under Japanese GAAP, a financial instrument is generally classified as an equity instrument or a financial liability in light of its legal form. Under IFRS, a financial instrument or its component parts are classified as equity instruments or financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities and equity instruments. A financial instrument is classified as a financial liability if there is a contractual obligation to deliver cash or another financial asset other than a fixed number of equity shares in exchange for a fixed amount of cash or another financial asset. In the absence of such a contractual obligation, the financial instrument is classified as an equity instrument.

### **5.B. LIQUIDITY AND CAPITAL RESOURCES**

We consistently endeavor to enhance the management of our liquidity profile and strengthen our capital base to meet our customers' loan requirements and deposit withdrawals and respond to unforeseen situations such as adverse movements in stock, foreign currency, interest rate and other markets, or changes in general domestic or international conditions.

#### **Liquidity**

We derive funding for our operations both from domestic and international sources. Our domestic funding is derived primarily from deposits placed with the Bank by its corporate and individual customers, and also from call money (inter-bank), bills sold (inter-bank promissory notes), repurchase agreements, borrowings, and negotiable certificates of deposit issued by the Bank to domestic and international customers. Our international sources of funds are principally from deposits from corporate customers and foreign central banks, negotiable certificates of deposit, bonds, commercial paper, and also from repurchase agreements and cash collateral on securities lent. We closely monitor maturity gaps and foreign exchange exposure in order to manage our liquidity profile.



As shown in the following table, total deposits increased by ¥4,354,493 million, or 3%, from ¥125,940,797 million at March 31, 2016 to ¥130,295,290 million at March 31, 2017. The balance of deposits at March 31, 2017 exceeded the balance of loans and advances by ¥35,021,445 million, primarily due to the stable deposit base in Japan. Our loan-to-deposit ratio (total loans and advances divided by total deposits) in the same period was 73%, which contributed greatly to the reduction of our liquidity risk. Our balances of large-denomination domestic yen time deposits are stable due to the historically high rollover rate of our corporate customers and individual depositors.

	At March 31,	
	2017	2016
	(In millions)	
Loans and advances . . . . .	¥ 95,273,845	¥ 88,862,371
Deposits . . . . .	130,295,290	125,940,797

We have invested the excess balance of deposits against loans and advances primarily in marketable securities and other highly liquid assets, such as Japanese government bonds. The Bank’s Treasury Unit actively monitors the movement of interest rates and maturity profile of its bond portfolio as part of the Bank’s overall risk management. The bonds can be used to enhance liquidity. When needed, they can be used as collateral for call money or other money market funding or short-term borrowings from the BOJ.

Secondary sources of liquidity include short-term debts, such as call money, bills sold, and commercial paper issued at an inter-bank or other wholesale markets. We also issue long-term debts, including both senior and subordinated debts, as additional sources of liquidity. With short- and long-term debts, we can diversify our funding sources, effectively manage our funding costs and enhance our capital adequacy ratios when appropriate.

We source our funding in foreign currencies primarily from financial institutions, general corporations, and institutional investors, through short- and long-term financing. Even if we encounter declines in our credit quality or that of Japan in the future, we expect to be able to purchase foreign currencies in sufficient amounts using the yen funds raised through our domestic customer base. As further measures to support our foreign currency liquidity, we hold foreign debt securities, maintain credit lines and swap facilities denominated in foreign currencies, and pledge collateral to the U.S. Federal Reserve Bank.

We maintain management and control systems to support our ability to access liquidity on a stable and cost-effective basis. For further information, see “Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk—Market Risk and Liquidity Risk—Framework for Market and Liquidity Risk Management.”

We believe we are able to access such sources of liquidity on a stable and flexible basis by keeping credit ratings at a high level. The following table shows credit ratings assigned to SMFG by Moody’s, S&P and Fitch at May 31, 2017:

At May 31, 2017								
Moody’s			S&P			Fitch		
Long-term	Outlook	Short-term	Long-term	Outlook	Short-term	Long-term	Outlook	Short-term
A1	S	P-1	A-	P	—	A	S	F1

The following table shows credit ratings assigned to the Bank by Moody’s, S&P and Fitch at May 31, 2017:

At May 31, 2017								
Moody’s			S&P			Fitch		
Long-term	Outlook	Short-term	Long-term	Outlook	Short-term	Long-term	Outlook	Short-term
A1	S	P-1	A	P	A-1	A	S	F1

We are assigned credit ratings by major domestic and international credit rating agencies. Credit ratings do not constitute recommendations to purchase, sell or hold a security, and rating agencies may review or indicate an intention to review ratings at any time. While the methodology and rating system vary among rating agencies, credit ratings are generally based on information provided by us or independent sources, and can be influenced by the credit ratings of Japanese government bonds and broader views of the Japanese financial system. Any downgrade in or withdrawal of these credit ratings, or any adverse change in these ratings relative to other financial institutions, could increase our borrowing costs, reduce our access to the capital markets and otherwise negatively affect our ability to raise funds, which in turn could have a negative impact on our liquidity position.

The guidelines published by FSA for LCR applicable to banks with international operations are based on the full text of the LCR standard issued by the BCBS in January 2013. Under these guidelines, banks with international operations must maintain LCR of 100% on both a consolidated basis and a nonconsolidated basis, while the minimum LCR requirements are being phased in between March 31, 2015 and March 31, 2019 with an increase of 10% in each year starting from 60%. The following table shows the LCRs of SMFG and the Bank for the three months ended March 31, 2017. Each figure is calculated based on our financial statements prepared in accordance with Japanese GAAP, as required by the FSA’s LCR guidelines.

	<u>For the three months ended March 31, 2017<sup>(1)</sup></u>
SMFG (consolidated) .....	119.2%
SMBC (consolidated) .....	123.1%
SMBC (nonconsolidated) .....	124.3%

(1) Under the FSA’s LCR guidelines, LCR is calculated by dividing the month-end average balance of high-quality liquid assets at the end of January, February and March 2017 by the monthly average amount of total net cash outflows for the same three months.

For further information, see “Item 4.B. Business Overview—Regulations in Japan—Regulations Regarding Capital Adequacy and Liquidity—Liquidity Requirement.”

## Capital Management

With regard to capital management, we strictly abide by the capital adequacy guidelines set by the FSA. Japan’s capital adequacy guidelines are based on the Basel Capital Accord, which was proposed by the BCBS for uniform application to all banks which have international operations in industrialized countries. Japan’s capital adequacy guidelines may be different from those of central banks or supervisory bodies of other countries because they have been designed by the FSA to suit the Japanese banking environment. Our banking subsidiaries outside of Japan are also subject to the local capital ratio requirements.

Each figure for the FSA capital adequacy guidelines is calculated based on our financial statements prepared under Japanese GAAP.

The FSA capital adequacy guidelines permit Japanese banks to choose from the standardized approach (“SA”), the foundation IRB approach and the advanced IRB approach for credit risk, and the basic indicator approach (“BIA”), the standardized approach (“TSA”) and the AMA for operational risk. To be eligible to adopt the foundation IRB approach or the advanced IRB approach for credit risk, and the TSA or the AMA for operational risk, a Japanese bank must establish advanced risk management systems and receive prior approval from the FSA.

We and the Bank have adopted the advanced IRB approach since March 31, 2009 and the AMA since March 31, 2008.

In December 2010, the BCBS published the new Basel III rules text to implement the Basel III framework, which sets out higher and better-quality capital, better risk coverage, the introduction of a leverage ratio as a

backstop to the risk-based requirement, measures to promote the build-up of capital that can be drawn down in periods of stress, and the introduction of two global liquidity standards. The main measures of the minimum capital requirements in the Basel III framework began on January 1, 2013 and will be fully applied from January 1, 2019.

These capital reforms increase the minimum common equity requirement from 2% to 4.5% and require banks to hold a capital conservation buffer, which started to be phased in from January 2016 with the initial ratio of 0.625% and will reach 2.5% by January 2019, to withstand future periods of stress, bringing the total common equity requirement to 7%. The Tier 1 capital requirement will also be increased from 4% to 6%, resulting in a total requirement of 8.5% when combined with the above-mentioned conservation buffer. The total capital requirement remains at the existing level of 8% but will increase to 10.5% by January 2019 due to the capital conservation buffer. Furthermore, a countercyclical buffer within a range of 0% to 2.5% of common equity or other fully loss-absorbing capital has been implemented according to national circumstances. The GHOS also agreed on transitional arrangements for implementing the new requirements.

In addition to the above-mentioned minimum capital requirements and capital buffer requirements under Basel III, organizations identified by the FSB as G-SIBs, which includes us, are required to maintain an additional 1% to 2.5% of Common Equity Tier 1 capital as a percentage of risk-weighted assets, which is commonly referred to as the G-SIB capital surcharge, based on the organization's size, interconnectedness, substitutability, complexity and cross-jurisdictional activity as determined by the FSB. The amount of G-SIB capital surcharge that applies to us based on the FSB's determination will be 1% of risk-weighted assets when the requirements are fully applied from 2019. Under the phase-in arrangement for the G-SIB capital surcharge, we are currently required to maintain 0.5% of Common Equity Tier 1 capital as a percentage of risk-weighted assets.

To reflect the Basel III framework, the FSA changed its capital adequacy guidelines. Under the FSA capital adequacy guidelines, the new capital requirements are being phased in from March 31, 2013 through March 31, 2019. The minimum Common Equity Tier 1 capital requirement and Tier 1 capital requirement have been 4.5% and 6%, respectively since March 2015. The capital conservation buffer, countercyclical buffer and the G-SIB capital surcharge started to be phased in from March 31, 2016 under the FSA capital adequacy guidelines.

In March 2015, the FSA published its leverage ratio guidelines, which have been applied from March 31, 2015, to help ensure broad and adequate capture of both on- and off-balance sheet sources of leverage for internationally active banks. The FSA's leverage ratio guidelines are based on the text of the leverage ratio framework and disclosure requirements issued by the BCBS in January 2014. Under the text of the leverage ratio framework, the BCBS indicated the minimum leverage ratio as 3% and monitored banks' leverage ratio data in order to assess whether the design and calibration of a minimum leverage ratio of 3% is appropriate from January 1, 2013 to January 1, 2017. Any final adjustments to the definition and calibration of the leverage ratio were scheduled to be made by the BCBS by 2017, with a view to migrate to a Pillar 1 (minimum capital requirement) treatment on January 1, 2018, based on appropriate review and calibration. For further information, see "Item 4.B. Business Overview—Regulations in Japan—Regulations Regarding Capital Adequacy and Liquidity—Leverage Ratio."

The table below presents our risk-weighted capital ratios, total capital, risk-weighted assets and leverage ratio under Japanese GAAP at March 31, 2017, based on the Basel III rules.

	<u>At March 31, 2017</u> (In billions, except percentages)
<b>SMFG Consolidated:</b>	
Total risk-weighted capital ratio . . . . .	16.93%
Tier 1 risk-weighted capital ratio . . . . .	14.07%
Common Equity Tier 1 risk-weighted capital ratio . . . . .	12.17%
Total capital (Common Equity Tier 1 capital + Additional Tier 1 capital + Tier 2 capital) . . .	¥ 11,973.7
Tier 1 capital (Common Equity Tier 1 capital + Additional Tier 1 capital) . . . . .	9,946.2
Common Equity Tier 1 capital . . . . .	8,608.5
Risk-weighted assets . . . . .	70,683.5
The amount of minimum total capital requirements <sup>(1)</sup> . . . . .	5,654.7
Leverage ratio . . . . .	4.74%

(1) The amount of minimum total capital requirements is calculated by multiplying risk-weighted assets by 8%.

Common Equity Tier 1 capital consists primarily of capital stock, capital surplus and retained earnings relating to common shares, and non-controlling interests that meet the criteria set forth in the FSA capital adequacy guidelines for inclusion in Common Equity Tier 1 capital.

Non-controlling interests arising from the issue of common shares by a fully consolidated subsidiary of a bank may receive recognition in Common Equity Tier 1 capital only if: (1) the instrument giving rise to the non-controlling interest would, if issued by the bank, meet all of the criteria set forth in the FSA capital adequacy guidelines for classification as common shares for regulatory capital purposes; and (2) the subsidiary that issued the instrument is itself a bank or other financial institution subject to similar capital adequacy guidelines.

Non-controlling interests that will no longer qualify as Common Equity Tier 1 capital, Additional Tier 1 capital, or Tier 2 capital under Basel III started to be excluded from March 31, 2014 by increments of 20% and will be fully phased out by March 31, 2018.

Regulatory adjustments such as goodwill and other intangibles, deferred tax assets, investment in the common equity capital of banking financial and insurance entities and defined benefit pension fund assets and liabilities are to be applied mainly to the calculation of Common Equity Tier 1 capital in the form of a deduction. Such regulatory adjustments are being phased in from March 31, 2014 through March 31, 2018.

Additional Tier 1 capital consists primarily of preferred securities and perpetual subordinated bonds.

Tier 2 capital consists primarily of subordinated debt securities.

Capital instruments such as preferred securities and subordinated debt issued on or after March 31, 2013 must meet the new requirements to be included in regulatory capital. Capital instruments issued prior to March 31, 2013 that do not meet the requirements set forth in the FSA capital adequacy guidelines no longer qualify as Additional Tier 1 or Tier 2 capital. However, if those capital instruments meet the requirements for transitional arrangements set forth in such guidelines, they can qualify as Additional Tier 1 or Tier 2 capital during the phase-out period beginning March 31, 2013. The remaining balance of those non-qualifying capital instruments recognized as Additional Tier 1 or Tier 2 capital will be reduced in annual 10% increments and be fully phased out by March 31, 2022.

At March 31, 2017, our consolidated total capital was ¥11,974 billion, Tier 1 capital was ¥9,946 billion, and Common Equity Tier 1 capital was ¥8,609 billion. Our total risk-weighted assets at March 31, 2017 were ¥70,684 billion.

On a consolidated basis, our total risk-weighted capital ratio was 16.93%, Tier 1 risk-weighted capital ratio was 14.07%, Common Equity Tier 1 risk-weighted capital ratio was 12.17% and leverage ratio was 4.74% at March 31, 2017.

Our capital position and the Bank's capital position depend in part on the fair market value of our investment securities portfolio, since unrealized gains and losses are included in the amount of regulatory capital. At March 31, 2013, unrealized gains and losses were counted as Tier 2 capital and Additional Tier 1 capital, respectively, but started to be counted as Common Equity Tier 1 capital from March 31, 2014 by increments of 20% and will be fully counted as Common Equity Tier 1 capital from March 31, 2018. Since our other securities (including money held in trust) with a readily ascertainable market value included unrealized gains and losses, substantial fluctuations in the Japanese stock markets may affect our capital position and the capital position of the Bank.

In addition, our capital position and the Bank's capital position would be negatively affected if deferred tax assets cannot be recognized. Under Japanese GAAP, a company will lose its ability to recognize deferred tax assets if, in principle, it has substantial amounts of negative annual taxable income for each of past three consecutive years and current fiscal year, and is expected to have significant negative taxable income in the following fiscal year.

Set forth below is a table of risk-weighted capital ratios and leverage ratio of the Bank at March 31, 2017 on a consolidated and nonconsolidated basis.

	<b>At March 31, 2017</b> <b>(In billions, except percentages)</b>
<b>SMBC Consolidated:</b>	
Total risk-weighted capital ratio . . . . .	17.77%
Tier 1 risk-weighted capital ratio . . . . .	14.61%
Common Equity Tier 1 risk-weighted capital ratio . . . . .	12.89%
Total capital (Common Equity Tier 1 capital + Additional Tier 1 capital + Tier 2 capital) . . .	¥ 10,311.6
Tier 1 capital (Common Equity Tier 1 capital + Additional Tier 1 capital) . . . . .	8,478.2
Common Equity Tier 1 capital . . . . .	7,476.9
Risk-weighted assets . . . . .	58,004.4
The amount of minimum total capital requirements <sup>(1)</sup> . . . . .	4,640.4
Leverage ratio . . . . .	4.41%
<b>SMBC Nonconsolidated:</b>	
Total risk-weighted capital ratio . . . . .	18.61%
Tier 1 risk-weighted capital ratio . . . . .	15.05%
Common Equity Tier 1 risk-weighted capital ratio . . . . .	13.15%
Total capital (Common Equity Tier 1 capital + Additional Tier 1 capital + Tier 2 capital) . . .	¥ 9,598.4
Tier 1 capital (Common Equity Tier 1 capital + Additional Tier 1 capital) . . . . .	7,766.8
Common Equity Tier 1 capital . . . . .	6,785.0
Risk-weighted assets . . . . .	51,575.8
The amount of minimum total capital requirements <sup>(1)</sup> . . . . .	4,126.1

(1) The amount of minimum total capital requirements is calculated by multiplying risk-weighted assets by 8%.

Our securities subsidiaries in Japan, SMBC Nikko Securities and SMBC Friend Securities, are also subject to capital adequacy requirements under the FIEA described in "Item 4.B. Business Overview—Regulations in Japan—Regulations Regarding Capital Adequacy and Liquidity." At March 31, 2017, the capital adequacy ratios

were 330.8% for SMBC Nikko Securities and 1,202.5% for SMBC Friend Securities, and sufficiently above 140%, below which level they would be required to file daily reports with the Commissioner of the FSA.

### 5.C. RESEARCH, DEVELOPMENT, PATENTS AND LICENSES

We did not conduct any significant research and development activities for the fiscal year ended March 31, 2017. However, there are certain research and development activities conducted by subsidiaries in charge of systems development and information processing for our information system infrastructure.

### 5.D. TREND INFORMATION

Our trend information is contained elsewhere in this annual report, including but not limited to “Item 4.B. Business Overview,” and “—A. Operating Results,” and “—B. Liquidity and Capital Resources” in this Item.

### 5.E. OFF-BALANCE SHEET ARRANGEMENTS

To meet our customers’ financing needs, we engage in various types of off-balance sheet arrangements in the ordinary course of business.

Our arrangements include loan commitments, financial guarantees and other credit-related contingent liabilities. Loan commitment contracts on overdrafts and loans are agreements to lend up to a prescribed amount to customers, as long as there is no violation of any condition established in the contracts. Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of the debt instrument. Other credit-related contingent liabilities include performance bonds, which are contracts that provide compensation if another party fails to perform the contractual obligation.

The table below shows the nominal amounts of undrawn loan commitments, and financial guarantees and other credit-related contingent liabilities at March 31, 2017 and 2016.

	<u>At March 31,</u>	
	<u>2017</u>	<u>2016</u>
	(In millions)	
Loan commitments .....	¥62,357,210	¥58,026,597
Financial guarantees and other credit-related contingent liabilities .....	7,924,711	7,349,903
Total .....	<u>¥70,281,921</u>	<u>¥65,376,500</u>

The nominal amounts of these off-balance sheet instruments generally represent the maximum potential amounts of future payments without consideration of possible recoveries under recourse provisions or from collateral held. For example, since many of these loan commitments are expected to expire without being drawn down, the total amount of unused commitments does not necessarily represent an actual future cash flow requirement. Many of these loan commitments include clauses under which we can reject an application from customers or reduce the contract amounts in cases where economic conditions change, we need to secure claims, or some other significant event occurs. In addition, we may request the customers to pledge collateral such as premises and securities at the time of the contracts, and take necessary measures such as monitoring customers’ financial positions, revising contracts when the need arises and securing claims after the contracts are made. We regularly review the credit quality of the customer based on our risk management system as set forth in “Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk” and Note 45 “Financial Risk Management” to our consolidated financial statements included elsewhere in this annual report.

In addition to the above-mentioned off-balance sheet arrangements, some of the Group’s off-balance sheet arrangements are related to activities of structured entities. For further information, see Note 48 “Structured Entities” to our consolidated financial statements included elsewhere in this annual report.

## 5.F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

In the normal course of business, we enter into contractual obligations that require future cash payments. The following table sets forth a summary of our contractual cash obligations at March 31, 2017.

	At March 31, 2017				
	Due in one year or less	Due from one year to three years	Due from three years to five years	Due after five years	Total <sup>(1)</sup>
	(In millions)				
Time deposits . . . . .	¥ 24,950,283	¥ 2,952,200	¥ 858,252	¥ 744,775	¥ 29,505,510
Negotiable certificate of deposits . . . . .	11,514,609	276,089	87,454	2,786	11,880,938
Borrowings . . . . .	7,956,309	868,247	949,406	2,364,402	12,138,364
Debt securities in issue . . . . .	4,628,602	1,527,880	2,213,439	2,806,492	11,176,413
Capital (finance) lease obligation . . . . .	27,901	48,550	30,408	6,129	112,988
Operating lease obligation . . . . .	44,746	68,697	56,249	129,312	299,004
Purchase obligation <sup>(2)</sup> . . . . .	274,047	773,588	1,297,142	480,233	2,825,010
Total . . . . .	¥ 49,396,497	¥ 6,515,251	¥ 5,492,350	¥ 6,534,129	¥ 67,938,227

- (1) The amount of interest on debt instruments is not included in the maturity table above due to its insignificance.
- (2) Purchase obligation in the above table includes the contractual commitments to purchase aircraft to be leased to customers and to purchase goods or services of construction and information technology that are binding on us for the payment of more than ¥100 million. The contractual commitments to purchase aircraft are based upon fixed price agreements with the manufacturers, an element of which are adjusted for inflation and include price escalation formulas, but are also subject to agreed price concessions where applicable.

## 5.G. SAFE HARBOR

See the discussion under “Cautionary Statement Regarding Forward-Looking Statements.”

## Item 6. Directors, Senior Management and Employees

### 6.A. DIRECTORS AND SENIOR MANAGEMENT

#### Directors and Senior Management

We had previously employed a board of corporate auditors governance system. In order to further enhance our solid corporate governance system, we transitioned to a company with three statutory committees, following approval at our ordinary general meeting of shareholders held on June 29, 2017.

Under the Companies Act, a company with three statutory committees is required to have a nominating committee, an audit committee and a compensation committee, each of which consisting of members of the board of directors and of which the majority of the members must be outside directors. In addition to the three statutory committees, we have voluntarily established our risk committee. Also, under the Companies Act, a company with three statutory committees must have one or more corporate executive officers elected by resolution of the board of directors. Corporate executive officers decide on the execution of the operations of the company that were delegated to them by resolution of the board of directors. The board of directors decides on the execution of operations of the company, including basic management policy, and supervises the execution of duties by corporate executive officers.

Our board of directors is comprised of seventeen directors, seven of whom are outside directors as defined under the Companies Act. In addition, our board of directors has elected nine corporate executive officers.

For more information, see “Item 6.C. Board Practices.”

## Directors

At June 29, 2017, the following directors held the indicated positions with us:

<b>Name (Date of birth)</b>	<b>Current positions and principal outside positions</b>		<b>Business experience</b>
Koichi Miyata (November 16, 1953)	Chairman of the Board of the Company	April 1976	Joined Mitsui Bank
		June 2003	Executive Officer of the Bank
	Chairman of the Board of the Bank	October 2006	Managing Executive Officer of the Bank
		April 2009	Director and Senior Managing Executive Officer of the Bank
		April 2010	Senior Managing Executive Officer of the Company
		June 2010	Director of the Company
		April 2011	Director and President of the Company
			Director of the Bank
		April 2017	Chairman of the Board of the Company (to present) Chairman of the Board of the Bank (to present)
Takeshi Kunibe (March 8, 1954)	Director President of the Company (Representative Corporate Executive Officer)	April 1976	Joined Sumitomo Bank
		June 2003	Executive Officer of the Bank
	Group Chief Executive Officer, or CEO	October 2006	Managing Executive Officer of the Bank
		April 2007	Managing Executive Officer of the Company
		June 2007	Director of the Company
		April 2009	Director and Senior Managing Executive Officer of the Bank
		April 2011	President and Chief Executive Officer of the Bank
		April 2017	President of the Company
		Resigned as Director of the Bank	
		June 2017	Director President of the Company (to present)
Makoto Takashima (March 31, 1958)	Director of the Company	April 1982	Joined Sumitomo Bank
		April 2009	Executive Officer of the Bank
	President of the Bank	April 2012	Managing Executive Officer of the Bank
		April 2014	Senior Managing Executive Officer of the Bank
		December 2016	Director and Senior Managing Executive Officer of the Bank
		April 2017	President of the Bank (to present)
	June 2017	Director of the Company (to present)	
Kozo Ogino (May 9, 1958)	Director Deputy President and Corporate Executive Officer of the Company	April 1981	Joined Mitsui Bank
		April 2010	Executive Officer of the Bank
	Group Chief Risk Officer, or CRO	April 2011	Managing Executive Officer of the Bank
		April 2013	Managing Executive Officer of the Company
	Officer in charge of Corporate Risk Management Department and Credit & Investment Planning Department	June 2013	Director of the Company
	Director and Deputy President of the Bank	April 2014	Director and Senior Managing Executive Officer of the Bank
		April 2017	Director and Deputy President of the Company
		Director and Deputy President of the Bank (to present)	
		June 2017	Director Deputy President and Corporate Executive Officer of the Company (to present)



<b>Name (Date of birth)</b>	<b>Current positions and principal outside positions</b>		<b>Business experience</b>
Jun Ohta (February 12, 1958)	Director Deputy President and Corporate Executive Officer of the Company (Representative Corporate Executive Officer)	April 1982	Joined Sumitomo Bank
		April 2009	Executive Officer of the Bank
	Group Chief Financial Officer, or CFO, Group Chief Strategy Officer, or CSO and Group Chief Digital Innovation Officer, or CDIO	April 2012	Managing Executive Officer of the Bank
		April 2013	Managing Executive Officer of the Company
	Officer in charge of Public Relations Department, Corporate Planning Department, Financial Accounting Department, Subsidiaries & Affiliates Department and IT Innovation Department	April 2014	Senior Managing Executive Officer of the Company
		June 2014	Senior Managing Executive Officer of the Bank
	In charge of Transaction Business Planning Department	April 2015	Director of the Company
		April 2017	Director and Senior Managing Executive Officer of the Bank
			Director and Deputy President of the Company
		June 2017	Resigned as Director of the Bank Director Deputy President and Corporate Executive Officer of the Company (to present)
Katsunori Tanizaki (April 12, 1957)	Director Senior Managing Corporate Executive Officer of the Company	April 1982	Joined Sumitomo Bank
		April 2010	Executive Officer of the Bank
	Group Chief Information Officer, or CIO	April 2011	General Manager of IT Planning Department of the Company
	Officer in charge of IT Planning Department, Data Management Department and Operations Planning Department	April 2013	Managing Executive Officer of the Bank
		April 2015	Senior Managing Executive Officer of the Company
	Director and Senior Managing Executive Officer of the Bank		Director and Senior Managing Executive Officer of the Bank (to present)
		June 2015	Director of the Company
		April 2017	Director and Senior Managing Executive Officer of the Company
	June 2017	Director Senior Managing Corporate Executive Officer of the Company (to present)	
Toshikazu Yaku (March 3, 1962)	Director Senior Managing Corporate Executive Officer of the Company	April 1984	Joined Sumitomo Bank
		April 2012	General Manager of Human Resources Department of the Company
	Group Chief Compliance Officer, or CCO and Group Chief Human Resources Officer, or CHRO		Executive Officer of the Bank
		April 2014	Managing Executive Officer of the Bank
	Officer in charge of Human Resources Department, Quality Management Department, General Affairs Department and Administrative Services Department	April 2016	Managing Executive Officer of the Company
		March 2017	Director and Managing Executive Officer of the Bank
	Director and Senior Managing Executive Officer of the Bank	April 2017	Senior Managing Executive Officer of the Company
		June 2017	Director and Senior Managing Executive Officer of the Bank (to present) Director Senior Managing Corporate Executive Officer of the Company (to present)

<b>Name (Date of birth)</b>	<b>Current positions and principal outside positions</b>	<b>Business experience</b>	
Toshiyuki Teramoto (September 15, 1958)	Director of the Company	April 1981	Joined Mitsui Bank
		April 2008	Executive Officer of the Bank
	Corporate Auditor of the Bank	April 2011	Managing Executive Officer of the Bank
		April 2014	Director and Senior Managing Executive Officer of the Bank
		April 2015	Senior Managing Executive Officer of the Company
		June 2015	Director of the Company
		April 2016	Director of the Bank
		June 2016	Standing Corporate Auditor of the Company
		Corporate Auditor of the Bank (to present)	
Toru Mikami (August 27, 1960)	Director of the Company	June 2017	Director of the Company (to present)
		April 1984	Joined Sumitomo Bank
		April 2006	General Manager of Legal Department of the Bank
		April 2013	Co-General Manager of General Affairs Department of the Company
		April 2015	Senior Manager of Head Office of the Bank
		June 2015	Standing Corporate Auditor of the Company
		June 2017	Director of the Company (to present)
	Tetsuya Kubo (September 24, 1953)	Director of the Company	April 1976
June 2003			Executive Officer of the Bank
Representative Director-Chairman of SMBC Nikko Securities Inc. ("SMBC Nikko Securities")		July 2006	Managing Executive Officer of the Bank
		April 2008	Managing Executive Officer of the Company
		April 2009	Senior Managing Executive Officer of the Company
			Director and Senior Managing Executive Officer of the Bank
		April 2011	Deputy President and Executive Officer of the Company
			Director and Deputy President of the Bank
			Executive Director of SMBC Nikko Securities
		June 2011	Director of the Company
		March 2013	Resigned as Director of the Company
		Resigned as Director of the Bank	
	April 2013	Representative Director, President & CEO of SMBC Nikko Securities	
	April 2016	Representative Director-Chairman of SMBC Nikko Securities (to present)	
	June 2016	Director of the Company (to present)	

<b>Name (Date of birth)</b>	<b>Current positions and principal outside positions</b>	<b>Business experience</b>	
Masayuki Matsumoto <sup>(1)</sup> (April 14, 1944)	Director of the Company	April 1967	Joined the Japanese National Railways
		April 1987	Joined the Central Japan Railway Company
	Special Advisor of the Central Japan Railway Company	June 2004	President and Representative Director of the Central Japan Railway Company
		April 2010	Vice Chairman and Representative Director of the Central Japan Railway Company
		January 2011	Resigned as Director of the Central Japan Railway Company
		January 2011	President of Japan Broadcasting Corporation
		January 2014	Retired from Japan Broadcasting Corporation
		April 2014	Special Advisor of the Central Japan Railway Company (to present)
		June 2015	Director of the Bank
		June 2017	Director of the Company (to present) Retired as Director of the Bank
Arthur M. Mitchell <sup>(1)</sup> (July 23, 1947)	Director of the Company	July 1976	Registered as an attorney at law, admitted in New York, the U.S.A. (to present)
		January 2003	General Counsel of the Asian Development Bank
		September 2007	Joined White & Case LLP
		January 2008	Registered as Foreign Attorney in Japan (to present) Registered Foreign Attorney in Japan at White & Case LLP (to present)
		June 2015	Director of the Company (to present)
Shozo Yamazaki <sup>(1)</sup> (September 12, 1948)	Director of the Company	November 1970	Joined Tohmatsu Awoki & Co. (currently Deloitte Touche Tohmatsu LLC)
		September 1974	Registered as a certified public accountant (to present)
		July 1991	Representative Partner of Tohmatsu & Co. (currently Deloitte Touche Tohmatsu LLC)
		June 2010	Retired from Deloitte Touche Tohmatsu LLC
		July 2010	Chairman and President of The Japanese Institute of Certified Public Accountants
		July 2013	Advisor of The Japanese Institute of Certified Public Accountants (to present)
		April 2014	Professor of Tohoku University Accounting School (to present)
		June 2017	Director of the Company (to present)
Masaharu Kohno <sup>(1)</sup> (December 21, 1948)	Director of the Company	April 1973	Joined Ministry of Foreign Affairs of Japan
		August 2005	Director-General of Foreign Policy Bureau in Ministry of Foreign Affairs of Japan
		January 2007	Deputy Minister for Foreign Affairs (in charge of economy) of Ministry of Foreign Affairs of Japan
		February 2009	Ambassador of Japan to Russia
		May 2009	Ambassador of Japan to Russia, Armenia, Turkmenistan and Belarus
		March 2011	Ambassador of Japan to Italy
		May 2011	Ambassador of Japan to Italy, Albania, San Marino and Malta
		September 2014	Retired from office
		June 2015	Director of the Company (to present)

<b>Name (Date of birth)</b>	<b>Current positions and principal outside positions</b>	<b>Business experience</b>	
Yoshinobu Tsutsui <sup>(1)</sup> (January 30, 1954)	Director of the Company	April 1977	Joined Nippon Life Insurance Company
	President of Nippon Life Insurance Company	July 2004	Director of Nippon Life Insurance Company
		January 2007	Director and Executive Officer of Nippon Life Insurance Company
		March 2007	Director and Managing Executive Officer of Nippon Life Insurance Company
		March 2009	Director and Senior Managing Executive Officer of Nippon Life Insurance Company
		March 2010	Representative Director and Senior Managing Executive Officer of Nippon Life Insurance Company
		April 2011	President of Nippon Life Insurance Company (to present)
Katsuyoshi Shinbo <sup>(1)</sup> (April 8, 1955)	Director of the Company	June 2017	Director of the Company (to present)
		April 1984	Registered as an attorney at law (to present)
		November 1999	Attorney at law at Shinbo Law Office (currently Shinbo & Partners) (to present)
		June 2015	Corporate Auditor of the Bank
		June 2017	Director of the Company (to present) Resigned as Corporate Auditor of the Bank
Eriko Sakurai <sup>(1)</sup> (November 16, 1960)	Director of the Company	June 1987	Joined Dow Corning Corporation
	Chairman and Chief Executive Officer of Dow Corning Toray Co., Ltd.	May 2008	Director of Dow Corning Toray Co., Ltd.
		March 2009	Chairman and Chief Executive Officer of Dow Corning Toray Co., Ltd. (to present)
	President and Representative Director of Dow Corning Holding Japan Co., Ltd.	May 2011	Regional President -Japan/Korea of Dow Corning Corporation
		February 2015	President and Representative Director of Dow Corning Holding Japan Co., Ltd. (to present)
		June 2015	Director of the Company (to present)

(1) Messrs. and Ms. Matsumoto, Mitchell, Yamazaki, Kohno, Tsutsui, Shinbo and Sakurai satisfy the requirements for an “outside director” under the Companies Act.

## Corporate Executive Officers

At June 29, 2017, the following corporate executive officers held the indicated positions with us:

Name (Date of birth)	Current positions and principal outside positions		Business experience
Takeshi Kunibe (March 8, 1954)	See "Directors" under this Item 6.A.		See "Directors" under this Item 6.A.
Kozo Ogino (May 9, 1958)	See "Directors" under this Item 6.A.		See "Directors" under this Item 6.A.
Manabu Narita (March 29, 1959)	Deputy President and Corporate Executive Officer of the Company Director and Deputy President of the Bank Head of Wholesale Business Unit	April 1981	Joined Sumitomo Bank
		April 2008	Executive Officer of the Bank
		April 2011	Managing Executive Officer of the Bank
		April 2013	Managing Executive Officer of the Company
		June 2013	Director of the Company
		April 2014	Resigned as Director of the Company
			Director and Senior Managing Executive Officer of the Bank
		April 2015	Senior Managing Executive Officer of the Bank
		March 2017	Director and Senior Managing Executive Officer of the Bank
		April 2017	Deputy President and Executive Officer of the Company
	Director and Deputy President of the Bank (to present)		
	June 2017	Deputy President and Corporate Executive Officer of the Company (to present)	
Jun Ohta (February 12, 1958)	See "Directors" under this Item 6.A.		See "Directors" under this Item 6.A.
Yasuyuki Kawasaki (April 30, 1959)	Deputy President and Corporate Executive Officer of the Company Director and Deputy President of the Bank Head of International Business Unit	April 1982	Joined Sumitomo Bank
		April 2009	Executive Officer of the Bank
		April 2012	Managing Executive Officer of the Bank
		July 2012	Co-General Manager of Subsidiaries & Affiliates Department of the Company
		April 2013	Managing Executive Officer of the Company
		April 2014	Senior Managing Executive Officer of the Company
			Senior Managing Executive Officer of the Bank
		April 2015	Director and Senior Managing Executive Officer of the Bank
		April 2017	Deputy President and Executive Officer of the Company
			Director and Deputy President of the Bank (to present)
	June 2017	Deputy President and Corporate Executive Officer of the Company (to present)	

Name (Date of birth)	Current positions and principal outside positions	Business experience	
Katsunori Tanizaki (April 12, 1957)	See "Directors" under this Item 6.A.	See "Directors" under this Item 6.A.	
Yukihiko Onishi (July 22, 1959)	Senior Managing Corporate Executive Officer of the Company	April 1983	Joined Sumitomo Bank
		April 2011	Executive Officer of the Bank
	Senior Managing Executive Officer of the Bank	April 2012	General Manager of Planning Department of the Company
	Head of Retail Business Unit	April 2013	Managing Executive Officer of the Bank
		April 2015	Senior Managing Executive Officer of the Company
			Director and Senior Managing Executive Officer of the Bank
		April 2017	Senior Managing Executive Officer of the Bank (to present)
	June 2017	Senior Managing Corporate Executive Officer of the Company (to present)	
Toshikazu Yaku (March 3, 1962)	See "Directors" under this Item 6.A.	See "Directors" under this Item 6.A.	
Hiroshi Munemasa (February 1, 1962)	Managing Corporate Executive Officer of the Company	April 1985	Joined Sumitomo Bank
		April 2012	General Manager of Planning Department, Treasury Unit of the Bank
	Managing Executive Officer of the Bank		
	Head of Global Markets Business Unit	April 2013	Executive Officer of the Bank
		April 2015	Managing Executive Officer of the Bank (to present)
		April 2017	Managing Executive Officer of the Company
	June 2017	Managing Corporate Executive Officer of the Company (to present)	

### Familial Relationships

There are no familial relationships between any of the directors and corporate executive officers listed above.

### Arrangements and Understandings

There is no arrangement or understanding with any major shareholder, customer, supplier or other party, pursuant to which any of the directors and corporate executive officers listed above were selected as a director or member of corporate executive officers.

## 6.B. COMPENSATION

The aggregate amounts of compensation paid by us during the fiscal year ended March 31, 2017 to our directors and to our corporate auditors were ¥840 million and ¥179 million, respectively.

The following table sets forth the details of individual compensation, disclosed pursuant to the provision of the FIEA and related ordinance, by SMFG and its subsidiaries in amounts equal to or exceeding ¥100 million during the fiscal year ended March 31, 2017:

Director	Aggregate amount	Paid by	Compensation		
			Annual salary (In millions) <sup>(1)</sup>	Stock option	Bonus
Masayuki Oku . . . . .	¥ 122	SMFG	¥ 86	¥ 11	¥ 24
Koichi Miyata . . . . .	¥ 128	SMFG	¥ 70	¥ 10	¥ 20
		SMBC	21	1	4
Takeshi Kunibe . . . . .	¥ 128	SMFG	¥ 21	¥ 1	¥ 4
		SMBC	70	10	20
Tetsuya Kubo . . . . .	¥ 109	SMFG	¥ 10	¥ —	¥ —
		SMBC Nikko Securities	54	—	44

(1) Amounts less than one million yen have been truncated.

Compensation for each individual director and corporate auditor during the fiscal year ended March 31, 2017, was determined by our board of directors and by consultation among our corporate auditors, respectively, in accordance with our internal rules and our standard practice of approval at our general meeting of shareholders. The shareholders' approval specified the upper limit of the aggregate amount of compensation or calculation methods. To ensure objectivity in the process of determining such compensation, bonuses and stock options to our board of directors and the board of directors of the Bank, we had voluntarily formed a compensation committee in which an outside director served as the chairman of the committee.

We had introduced compensation-type stock options to directors, corporate auditors, and executive officers of the Company and the Bank ("SMFG Stock Acquisition Rights"), which served as an incentive for them to further contribute to the equity appreciation and achieve better corporate performance through sharing the benefits and risks of the share price performance with our shareholders. For additional information, see "Item 6.E. Share Ownership" or Note 39 "Share-Based Payment" to our consolidated financial statements included elsewhere in this annual report.

Following approval at our ordinary general meeting of shareholders held on June 29, 2017, we transitioned from a board of corporate auditors governance system to a company with three statutory committees: a nominating committee, an audit committee and a compensation committee. Under the new governance system, the compensation committee is responsible for determining policy in regard to the determination of compensation of our directors and corporate executive officers. For more information, see "Item 6.C. Board Practices." The above reflects information regarding compensation for our directors and our corporate auditors prior to such transition.

## 6.C. BOARD PRACTICES

### General

The Companies Act permits three types of governance systems for large public companies. The first system is for companies with a board of corporate auditors, and the second one is for companies with an audit and supervisory committee. The last one is for companies with three statutory committees: a nominating committee, an audit committee and a compensation committee.

We had previously employed a board of corporate auditors governance system. In order to further enhance our solid corporate governance system, we transitioned to a company with three statutory committees, following approval at our ordinary general meeting of shareholders held on June 29, 2017.

Under the Companies Act, a company with three statutory committees is required to have a nominating committee, an audit committee and a compensation committee, each of which consisting of members of the board of directors and of which the majority of the members must be outside directors. In addition to the three statutory committees, we have voluntarily established our risk committee.

“Outside director” means a director of any corporation who satisfies all of the following requirements: (a) a person who is not an executive director, corporate executive officer (*shikkoyaku*), or an employee, including a manager (“Executive Director, etc.”), and has not been an Executive Director, etc. of such corporation or any of its subsidiaries for the ten years prior to assuming his/her office; (b) if the person has been a director, accounting advisor or corporate auditor of such corporation or any of its subsidiaries (excluding a person who has been an Executive Director, etc.) at any time within the ten years prior to assuming his/her office, a person who has not been an Executive Director, etc. of such corporation or any of its subsidiaries for the ten years prior to assuming his/her office as director, accounting advisor, or corporate auditor; (c) a person who is not a parent corporation or any entity which is prescribed by the applicable Ordinance of the Ministry of Justice as a person who controls the management of the corporation (excluding entities who are juridical persons) (“parent corporation, etc.”) of such corporation (limited to a natural person) or director or corporate executive officer (*shikkoyaku*), or other employee, including a manager, of a parent corporation, etc.; (d) a person who is not an Executive Director, etc. of a subsidiary or any entity which is prescribed by the applicable Ordinance of the Ministry of Justice as the juridical person for which management is controlled by the person other than the corporation (“subsidiary, etc.”) of a parent corporation, etc. of such corporation; and (e) a person who is not a spouse or relative within the second degree of kinship of a director or corporate executive officer (*shikkoyaku*), manager, or other important employee of such corporation, or its parent corporation, etc. (limited to a natural person).

To ensure the compliance of our execution of our business operations with legal regulations and generally accepted practices, the outside directors are selected from among experts (including certified public accountants, lawyers and persons with consulting or business management experience).

Also, under the Companies Act, a company with three statutory committees must have one or more corporate executive officers elected by resolution of the board of directors. Corporate executive officers decide on the execution of the operations of the company that were delegated to them by resolution of the board of directors.



Pursuant to Article 4 of our articles of incorporation, we maintain a corporate governance system consisting of a general meeting of shareholders, individual directors, a board of directors, a nominating committee, an audit committee, a compensation committee, corporate executive officers and an accounting auditor as its primary components.

### **Board of directors**

Our articles of incorporation provide for a board of directors consisting of not fewer than three directors. We currently have seventeen directors. All directors are elected by our shareholders at a general meeting of shareholders. The term of office of a director expires upon conclusion of the ordinary general meeting of shareholders to be held for the last fiscal year ending within one year after the election of the director. Directors may serve any number of consecutive terms.

By resolution, our board of directors elects or removes corporate executive officers and representative executive officers. Our board of directors may elect directors with titles (*yakutsuki-torishimariyaku*) and corporate executive officers with titles (*yakutsuki-shikkoyaku*) and assign or change the designation of the duties of corporate executive officers by resolution. In addition, our board of directors elects or removes members of each statutory committee.

The Companies Act requires the board of directors to decide on the execution of operations of a company, including basic management policy, and supervise the execution of duties by corporate executive officers. In addition, the board of directors may, by resolution of the same, delegate decisions on the execution of the operations to corporate executive officers, to the extent permitted by the Companies Act.

### **Nominating committee**

The nominating committee determines the contents of proposals regarding the election and dismissal of directors to be submitted to a general meeting of shareholders. The committee also deliberates on matters relating to the appointment of our president and president of the Bank.

Under the Companies Act, we are required to have a nominating committee that consists of members of our board of directors, and the majority of the members must be outside directors. Currently, the chairman of the nominating committee is Yoshinobu Tsutsui, who is an outside director. Other outside directors on the nominating committee are Masayuki Matsumoto, Arthur M. Mitchell, Masaharu Kohno and Eriko Sakurai. The other director on the nominating committee is Koichi Miyata, the chairman of the board.

### **Audit committee**

The audit committee is responsible for auditing the execution of duties by corporate executive officers and directors, preparing audit reports and determining the contents of proposals regarding the election or dismissal of, or refusal to reelect, accounting auditors under the Companies Act to be submitted to a general meeting of shareholders. In addition, the committee inspects our operations and those of our major subsidiaries.

Under the Companies Act, we are required to have an audit committee that consists of members of our board of directors, and the majority of the members must be outside directors. Currently, the chairman of the audit committee is Masayuki Matsumoto, who is an outside director. Other outside directors on the audit committee are Shozo Yamazaki and Katsuyoshi Shinbo. Other directors on the audit committee are Toshiyuki Teramoto and Toru Mikami.

### **Compensation committee**

The compensation committee is responsible for determining policy in regard to the determination of compensation of our directors and corporate executive officers. In addition, the committee determines the contents of the compensation of the individual directors and corporate executive officers based on this policy.

Under the Companies Act, we are required to have a compensation committee that consists of members of our board of directors, and the majority of the members must be outside directors. Currently, the chairman of the compensation committee is Katsuyoshi Shinbo, who is an outside director. Other outside directors on the compensation committee are Arthur M. Mitchell, Yoshinobu Tsutsui and Eriko Sakurai. Other directors on the compensation committee are Koichi Miyata, the chairman of the board, and Takeshi Kunibe, our president.

### **Risk committee**

In addition to the three statutory committees mentioned above, we have voluntarily established our risk committee. The risk committee supervises and reports to our board of directors on material Group-wide risk management and compliance issues.

### **Corporate executive officers**

Under the Companies Act, a company with three statutory committees must have one or more corporate executive officers. We currently have nine corporate executive officers. All corporate executive officers are elected by our directors at a board of directors meeting. The term of office of a corporate executive officer expires upon conclusion of the first board of directors meeting called after conclusion of the ordinary general meeting of shareholders for the last business year ending within one year from the time of their election. The board of directors shall appoint representative executive officers from among the corporate executive officers.

Our President and Group Chief Executive Officer (“CEO”) executes business affairs in accordance with resolutions adopted by the board of directors. Our deputy presidents and executive officers, senior managing executive officers and managing executive officers assist the President and Group CEO in the management of our day-to-day operations. Our chairman of the board serves as the chairman of and presides over our board of directors. This is done in order to separate the role of our president, whose responsibility is to exercise overall supervision of our business activities and Group companies, from the role of our chairman.

At the operational level, we have created the Management Committee to act as the top decision-making body with respect to business administration and management supervision of the entire Group. The committee, composed of one or more corporate executive officers, the president of the Bank, the president of SMBC Nikko Securities and the person designated by our President and Group CEO considers important matters relating to the execution of business in accordance with the basic policies set by the board of directors and based on discussions held by the committee members.

### **Corporate Governance Practices**

For the purpose of protecting the interests of shareholders in general, some Japanese securities exchanges, including the Tokyo Stock Exchange, requires a listed company to have, from amongst its outside directors or outside corporate auditors, at least one independent director or corporate auditor who does not have conflicting interests with shareholders as specified under the rule. All companies on these securities exchanges are required to report the name of such independent director or corporate auditor, which is disclosed to the public. In addition, the Japan’s Corporate Governance Code (“Corporate Governance Code”) formulated by the Tokyo Stock Exchange, which establishes fundamental principles for effective corporate governance at listed companies in Japan and took effect in June 2015, provides that listed companies should appoint at least two independent directors. The independence standard for such independent directors will be determined by the subject listed company taking into consideration the independence standards of the Japanese stock exchanges. We also established the SMFG Corporate Governance Guideline in consideration of the content of the Corporate Governance Code and such Corporate Governance Guideline provides that one-third or more of the directors, and at least two of them, will be elected as independent outside directors. We designated all seven outside directors as independent directors.

Companies listed on the NYSE, must comply with certain corporate governance standards provided under Section 303A of the NYSE Listed Company Manual. However, NYSE-listed companies that are foreign private issuers, including us, are permitted to follow home country practices in lieu of certain provisions of Section 303A if such foreign private issuers meet certain criteria. See “Item 16G. Corporate Governance” for a summary of significant ways in which our corporate governance practices differ from those required to be followed by NYSE-listed U.S. companies.

### Exemption from Liability

Under the Companies Act and our articles of incorporation, we may exempt our non-executive directors, etc. from liabilities to us arising in connection with their failure to execute their duties, within the limits stipulated by applicable laws and regulations. Pursuant to such authority, we have entered into a liability limitation agreement with each non-executive director, etc. which limits the maximum amount of their liability to the Company arising in connection with a failure to execute their duties to the greater of either ¥10 million or the minimum liability amount prescribed in applicable laws.

### Benefits upon Termination of Employment

Neither we nor our subsidiaries maintain any directors’ service contracts providing for benefits upon termination of employment.

#### 6.D. EMPLOYEES

At March 31, 2017, 2016 and 2015, on a consolidated basis, we had approximately 77,200, 73,700 and 68,700 employees, respectively, including locally hired staff in our foreign offices but excluding temporary employees. We also had an average of approximately 16,000 temporary employees during the fiscal year ended March 31, 2017.

The following tables show our full-time employees at March 31, 2017 on a consolidated basis under Japanese GAAP broken down based on business segment and geographical location:

	<b>Percentage of full-time employees at March 31, 2017</b>
<b>Business segment:</b>	
Commercial Banking <sup>(1)</sup> . . . . .	52%
Leasing . . . . .	5
Securities . . . . .	15
Consumer Finance . . . . .	15
Others . . . . .	13
Total . . . . .	100%

(1) The number of employees of the Bank represents 38% of the number of our employees on a consolidated basis. Further, the number of employees in the Bank’s Wholesale Banking Unit, Retail Banking Unit, International Banking Unit, Treasury Unit and Others represent 7%, 19%, 6%, 1% and 5% of the number of our employees on a consolidated basis, respectively.

	<u>Percentage of full-time employees at March 31, 2017</u>
<b>Location:</b>	
Japan .....	88%
Americas .....	3
Europe and Middle East .....	2
Asia and Oceania .....	7
Total .....	<u>100%</u>

Most of the employees of the Bank are members of the Sumitomo Mitsui Banking Corporation Workers' Union, which negotiates with the Bank concerning remuneration and working conditions. The union is affiliated with the Federation of City Bank Workers' Unions. The Bank considers its labor relations to be excellent.

We consider our level of remuneration, fringe benefits (including an employee share ownership program), working conditions and other allowances, which include lump-sum payments and annuities to employees upon retirement, to be generally competitive with those offered by other large enterprises in Japan.

## 6.E. SHARE OWNERSHIP

### Shareholdings by Directors and Senior Management

The following table shows the number of shares of our common stock owned by our directors and corporate executive officers at June 29, 2017:

	<u>Number of shares owned</u>
<b>Directors and corporate executive officers:</b>	
Koichi Miyata .....	16,400
Takeshi Kunibe .....	35,988
Makoto Takashima .....	8,300
Kozo Ogino .....	9,100
Jun Ohta .....	10,500
Katsunori Tanizaki .....	7,900
Toshikazu Yaku .....	4,700
Toshiyuki Teramoto .....	8,400
Toru Mikami .....	1,000
Tetsuya Kubo .....	7,731
Masayuki Matsumoto .....	—
Arthur M. Mitchell .....	—
Shozo Yamazaki .....	—
Masaharu Kohno .....	—
Yoshinobu Tsutsui .....	—
Katsuyoshi Shinbo .....	—
Eriko Sakurai .....	—
Manabu Narita .....	9,322
Yasuyuki Kawasaki .....	7,900
Yukihiko Onishi .....	6,400
Hiroshi Munemasa .....	3,200

None of our directors or corporate executive officers is the owner of more than one percent of our common stock, and no director or corporate executive officers has voting rights with respect to our common stock that are different from any other holder of our common stock.

## Stock Option Plans and Other Remuneration for Directors and Senior Management

In June 2010, a resolution was passed at the general meeting of shareholders to introduce a stock option compensation program for directors, corporate auditors and executive officers of the Company and the Bank (“SMFG Stock Acquisition Rights”), which served to incentivize grantees to further contribute to the equity appreciation and improved corporate performance through a sharing of the benefits and risks of share price performance of our shares. These changes reflected a review of our compensation system and the elimination of retirement benefits for directors, corporate auditors and executive officers.

The following table provides an overview of the significant terms and conditions of our stock option plans:

	<u>Date of resolution</u>	<u>Number of grantees</u>	<u>Shares granted</u>	<u>Exercise period</u>	<u>Exercise price</u>
SMFG Stock Acquisition Rights (1st series) . . . .	July 28, 2010	82 directors, corporate auditors and executive officers of the Company and the Bank	102,600 shares of common stock of the Company	August 13, 2010 to August 12, 2040	¥1 per share granted upon exercise of each stock acquisition right, multiplied by the number of shares granted
SMFG Stock Acquisition Rights (2nd series) . . . .	July 29, 2011	85 directors, corporate auditors and executive officers of the Company and the Bank	268,200 shares of common stock of the Company	August 16, 2011 to August 15, 2041	¥1 per share granted upon exercise of each stock acquisition right, multiplied by the number of shares granted
SMFG Stock Acquisition Rights (3rd series) . . . .	July 30, 2012	85 directors, corporate auditors and executive officers of the Company and the Bank	280,500 shares of common stock of the Company	August 15, 2012 to August 14, 2042	¥1 per share granted upon exercise of each stock acquisition right, multiplied by the number of shares granted
SMFG Stock Acquisition Rights (4th series) . . . .	July 29, 2013	82 directors, corporate auditors and executive officers of the Company and the Bank	115,700 shares of common stock of the Company	August 14, 2013 to August 13, 2043	¥1 per share granted upon exercise of each stock acquisition right, multiplied by the number of shares granted
SMFG Stock Acquisition Rights (5th series) . . . .	July 30, 2014	82 directors, corporate auditors and executive officers of the Company and the Bank	121,900 shares of common stock of the Company	August 15, 2014 to August 14, 2044	¥1 per share granted upon exercise of each stock acquisition right, multiplied by the number of shares granted

	<u>Date of resolution</u>	<u>Number of grantees</u>	<u>Shares granted</u>	<u>Exercise period</u>	<u>Exercise price</u>
SMFG Stock Acquisition Rights (6th series) . . . .	July 31, 2015	83 directors, corporate auditors and executive officers of the Company and the Bank	132,400 shares of common stock of the Company	August 18, 2015 to August 17, 2045	¥1 per share granted upon exercise of each stock acquisition right, multiplied by the number of shares granted
SMFG Stock Acquisition Rights (7th series) . . . .	July 26, 2016	89 directors, corporate auditors and executive officers of the Company and the Bank	201,200 shares of common stock of the Company	August 15, 2016 to August 14, 2046	¥1 per share granted upon exercise of each stock acquisition right, multiplied by the number of shares granted

We have employee stock ownership associations in Japan for our, the Bank's and other subsidiaries' employees. Members of the employee stock ownership associations set aside certain amounts from their monthly salary to purchase our common stock through the relevant employee stock ownership association. The administrator of each association makes open-market purchases of our common stock for the account of the association on a monthly basis. We, the Bank and other subsidiaries contribute matching funds equivalent to 5% of the amount purchased by the relevant association. At March 31, 2017, none of the employee stock ownership associations held more than 1% of our common stock.

## Item 7. Major Shareholders and Related Party Transactions

### 7.A. MAJOR SHAREHOLDERS

#### Major Shareholders

Our major shareholders, appearing on our register of common shareholders at March 31, 2017, were as follows:

<u>Name:</u>	<u>Number of shares held<sup>(2)</sup></u>	<u>Percentage of shares issued<sup>(1)(2)</sup></u>
Japan Trustee Services Bank, Ltd. (Trust Account) . . . . .	77,865,200	5.50%
The Master Trust Bank of Japan, Ltd. (Trust Account) . . . . .	63,818,600	4.51%
Japan Trustee Services Bank, Ltd. (Trust Account 5) . . . . .	29,034,200	2.05%
Japan Trustee Services Bank, Ltd. (Trust Account 9) . . . . .	26,246,700	1.85%
STATE STREET BANK AND TRUST COMPANY 505223 . . . . .	24,825,763	1.75%
Japan Trustee Services Bank, Ltd. (Trust Account 1) . . . . .	21,554,900	1.52%
Japan Trustee Services Bank, Ltd. (Trust Account 2) . . . . .	21,282,200	1.50%
NATSCUMCO . . . . .	19,858,605	1.40%
Japan Trustee Services Bank, Ltd. (Trust Account 7) . . . . .	19,285,300	1.36%
STATE STREET BANK WEST CLIENT—TREATY 505234 . . . . .	19,048,976	1.34%

- (1) Percentages are calculated based on the total number of shares of common stock then issued, including our treasury stock, and have been truncated to the nearest second decimal point.
- (2) On October 21, 2016, Mizuho Securities Co., Ltd. submitted a filing to the Kanto Local Finance Bureau indicating that Mizuho Securities Co., Ltd. and its affiliate held 72,802,582 shares of our common stock, representing 5.15% of our outstanding common stock at October 14, 2016. On February 10, 2017, Sumitomo Mitsui Trust Holdings, Inc. submitted a Schedule 13G to the SEC, indicating that

Sumitomo Mitsui Trust Holdings, Inc. and its subsidiaries beneficially held 74,439,300 shares of our common stock, representing 5.3% of our outstanding common stock at December 31, 2016. On March 22, 2017, BlackRock Japan Co., Ltd. submitted a filing to the Kanto Local Finance Bureau indicating that BlackRock Japan Co., Ltd. and its affiliates held 90,686,690 shares of our common stock, representing 6.41% of our outstanding common stock at March 15, 2017. However, we have not confirmed the status of any of these shareholdings at March 31, 2017.

Our major shareholders do not have different voting rights.

### **Shareholders in the United States**

Because some of our common stock was held by brokers or other nominees, the number of shares held by and the number of beneficiary holders with addresses in the United States is not fully ascertainable. At March 31, 2017, there were 232 record holders of our common stock with addresses in the United States, whose shareholdings represented approximately 19% of our outstanding common stock on that date.

### **Control of the Company**

To our knowledge, we are not directly or indirectly owned or controlled by any another corporation(s), by any foreign government or by any other natural or legal person(s), severally or jointly.

### **Arrangements for Change in Control of the Company**

We know of no arrangements the operation of which may at a later time result in a change of control.

### **7.B. RELATED PARTY TRANSACTIONS**

We and our banking subsidiaries had, and expect to have in the future, banking transactions and other transactions in the ordinary course of business with our related parties. For the fiscal year ended March 31, 2017, such transactions included, but were not limited to, loans, deposits and guarantees. Furthermore, such transactions were immaterial and were made at prevailing market rates, terms and conditions, and did not involve more than the normal risk of collectibility or present other unfavorable features.

During the fiscal year ended March 31, 2017, none of our directors or corporate auditors or the Bank's directors, and none of the close members of their respective families, had any transactions that were material or any transactions that were unusual in their nature or conditions, involving goods, services or tangible or intangible assets, to which we were a party, and no such transactions were proposed at March 31, 2017. During the fiscal year ended March 31, 2017, we made no loans to our directors or corporate auditors or the Bank's directors other than those that were made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and did not involve more than the normal risk of collectibility or present other unfavorable features.

### **7.C. INTERESTS OF EXPERTS AND COUNSEL**

Not applicable.

## **Item 8. Financial Information**

### **8.A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION**

#### **Financial Statements**

All relevant financial statements are attached hereto. See "Item 18. Financial Statements." See "Item 5.A. Operating Results—Reconciliation with Japanese GAAP" for a reconciliation of consolidated net profit and total equity for the fiscal year ended March 31, 2017 under IFRS, with those amounts under Japanese GAAP.

## Export Sales

Not applicable.

## Legal Proceedings

We are party to routine litigation incidental to our business, none of which is currently expected to have a material adverse effect on our financial condition or results of operations. However, there can be no assurance that an adverse decision in one or more of these lawsuits will not have a material adverse effect.

## Dividend Policy and Dividends

The declaration, payment and determination of any year-end dividend are subject to the approval of shareholders of our common stock at our general meeting of shareholders and to statutory restrictions. The declaration, payment and determination of the amount of any interim dividend require a resolution of our board of directors and are subject to statutory restrictions. Dividend payments are made to shareholders or pledgees of record at the record dates for each payment. March 31 is the record date for year-end dividends and September 30 is the record date for interim dividends. The payment of year-end and interim dividends on common stock is subject to prior payment of dividends on our preferred stock, if any.

We had a basic policy of pursuing the sustainable growth of shareholder value and increasing the dividend per share in a stable manner, by achieving higher profitability and growth through growth investments with a focus on capital efficiency, while enhancing retained earnings to maintain financial soundness.

The following table shows historical aggregate dividend payments per share of our common stock for each of the fiscal years from the fiscal year ended March 31, 2015 through the fiscal year ended March 31, 2017:

	Dividend per share	
	Paid <sup>(1)</sup>	Declared <sup>(2)</sup>
<b>Fiscal year ended March 31,</b>		
2015 .....	¥ 140	¥ 125
2016 .....	150	155
2017 .....	150	150

(1) Dividend per share based on dividends in respect of each fiscal year including dividends proposed after current fiscal year-end but not recognized in the financial statements and excluding dividends in respect of the previous fiscal year declared in current fiscal year.

(2) Dividend per share based on dividends declared and recognized in the financial statements during each fiscal year.

We aim to enhance shareholder value in a sustainable manner by balancing financial soundness, return to shareholders, and investment for growth. We adopt a progressive dividend policy, which does not reduce dividends and at least maintains or increases dividend each year, and seek to achieve a dividend payout ratio of 40% on a consolidated net profit basis under Japanese GAAP.

## 8.B. SIGNIFICANT CHANGES

Except as otherwise described in this annual report, no significant change in our financial position has occurred since the date of the financial statements included elsewhere in this annual report.

## Item 9. The Offer and Listing

### 9.A. OFFER AND LISTING DETAILS

#### Offering Details

Not applicable.



## Price History of the Shares

### *Market Price Information for Our American Depositary Shares*

The following table sets forth, for the periods indicated, the high and low trading prices, and average daily trading volume for our ADSs on the NYSE since the fiscal year ended March 31, 2013.

	Price per ADS		Average daily trading volume (Number of shares)
	High	Low	
	(In dollars)		
<b>Fiscal year ended March 31, except quarter and month data:</b>			
2013 .....	\$ 9.46	\$ 5.55	888,210
2014 .....	10.59	7.32	1,600,359
2015 .....	8.83	6.74	1,760,924
2016:			
First quarter .....	9.25	7.74	2,405,701
Second quarter .....	9.28	7.26	1,206,089
Third quarter .....	8.49	7.40	1,202,063
Fourth quarter .....	7.69	5.01	4,154,861
Full year .....	9.28	5.01	2,218,760
2017:			
First quarter .....	6.88	5.51	1,773,474
Second quarter .....	7.33	5.43	1,090,648
Third quarter .....	8.30	6.39	963,498
Fourth quarter .....	8.09	7.21	875,551
Full year .....	8.30	5.43	1,179,005
Most recent six months:			
December .....	8.30	7.59	1,029,716
January .....	8.03	7.67	990,597
February .....	8.09	7.67	752,586
March .....	8.00	7.21	877,092
April .....	7.59	6.93	813,083
May .....	7.57	7.10	1,081,537
June (through June 15, 2017) .....	7.92	7.25	4,957,143

### **Market Price Information for Our Shares**

See “Item 9.C. Markets” for information on the stock exchanges on which our common stock is listed.

The following table sets forth, for the periods indicated, the high and low trading prices, and average daily trading volume for our common stock since the fiscal year ended March 31, 2013 on the Tokyo Stock Exchange.

	<u>Price per shares</u>		<u>Average daily trading volume</u> (Number of shares)
	<u>High</u>	<u>Low</u>	
	(In yen)		
<b>Fiscal year ended March 31, except quarter and month data:</b>			
2013	¥4,255	¥2,231	7,228,299
2014	5,470	3,545	9,052,026
2015	4,915	3,800	7,609,582
2016:			
First quarter	5,747	4,530	8,901,549
Second quarter	5,770	4,388	8,516,021
Third quarter	5,220	4,471	6,910,602
Fourth quarter	4,640	2,820	12,667,405
Full year	5,770	2,820	9,245,903
2017:			
First quarter	3,895	2,792	9,404,657
Second quarter	3,805	2,767	10,467,334
Third quarter	4,768	3,293	10,275,844
Fourth quarter	4,634	4,045	7,194,184
Full year	4,768	2,767	9,340,124
Most recent six months:			
December	4,768	4,290	9,477,843
January	4,614	4,335	6,711,511
February	4,634	4,306	6,602,520
March	4,533	4,045	8,148,914
April	4,200	3,760	7,601,890
May	4,256	3,974	5,944,170
June (through June 15, 2017)	4,340	3,952	8,432,082

### **9.B. PLAN OF DISTRIBUTION**

Not applicable.

### **9.C. MARKETS**

The primary trading market for our common stock is the Tokyo Stock Exchange (First Section), and our common stock is also listed on the Nagoya Stock Exchange (First Section). Our common stock is not listed on any stock exchange outside of Japan.

Our ADSs have been listed on the NYSE since November 1, 2010 and are quoted under the ticker symbol “SMFG.”

### **9.D. SELLING SHAREHOLDERS**

Not applicable.

#### **9.E. DILUTION**

Not applicable.

#### **9.F. EXPENSES OF THE ISSUE**

Not applicable.

### **Item 10. Additional Information**

#### **10.A. SHARE CAPITAL**

Not applicable.

#### **10.B. MEMORANDUM AND ARTICLES OF INCORPORATION**

Set out below is information concerning our share capital, including a summary of provisions of our articles of incorporation and share handling regulations and of the Companies Act relating to joint stock corporations (*kabushiki-kaisha*) and related legislation, each as currently in effect.

#### **Register and Entry, Objects and Purposes of the Company**

The Company is a joint stock corporation (*kabushiki-kaisha*) incorporated in Japan under the Companies Act (*kaishaho*) of Japan. It is registered in the commercial register (*shogyo-tokibo*) maintained by the Chiyoda Branch Office of the Tokyo Bureau of Legal Affairs.

Article 2 of our articles of incorporation provides that our purpose is to engage in the following business activities:

- management of banks and other corporations which are permitted to become, or to be established as, subsidiaries under the Banking Act and any business incidental thereto; and
- in addition to the businesses provided in the foregoing item, any business in which a bank holding company is permitted to engage under the Banking Act.

#### **Provisions Relating to Directors**

We had previously employed a board of corporate auditors governance system. In order to further enhance our solid corporate governance system, we transitioned to a company with three statutory committees: a nominating committee, an audit committee and a compensation committee, following approval at our ordinary general meeting of shareholders held on June 29, 2017. The Companies Act requires the board of directors to decide on the execution of operations of a company, including basic management policy, and supervise the execution of duties by corporate executive officers. In addition, the board of directors may delegate decisions on the execution of the operations to corporate executive officers, to the extent permitted by the Companies Act. The Companies Act and our articles of incorporation, bylaws and associated internal rules issued pursuant to the articles provide in summary as follows:

- a director is not entitled to vote on a proposal or arrangement or contract in which the director has a special interest;
- the amount of compensation to each of our directors is determined by the compensation committee, which consists of members of our board of directors, the majority of whom must be outside directors;
- the board of directors has authority to approve transactions between the directors and us;
- there are no provisions requiring the mandatory retirement of directors at a specified age; and
- share ownership is not required in order to be eligible to serve as a director.

## **Rights, Preferences and Restrictions of the Shares**

A joint stock corporation is a legal entity incorporated under the Companies Act. The rights of shareholders of a joint stock corporation are represented by shares of stock in the corporation, and shareholders' liability is limited to the amount of the subscription for the shares.

We may issue shares within our authorized but unissued share capital following a resolution by our board of directors. An increase in our authorized share capital requires an amendment of our articles of incorporation, which generally requires approval of our common and preferred shareholders, if any.

### ***Common Stock***

#### *General*

On January 5, 2009, a central clearing system of shares of Japanese listed companies was enacted under the Act Concerning Book-Entry Transfer of Corporate Bonds, Shares and Other Securities ("Book-Entry Transfer Act") and the shares of all Japanese companies listed on any Japanese stock exchange, including our shares, became subject to this system, and all share certificates of companies then listed in Japan became null and void on the effective date of the Book-Entry Transfer Act.

Under the clearing system, a person must have an account at an account managing institution or at Japan Securities Depository Center, Inc. ("JASDEC") in order to purchase, hold, sell or otherwise dispose of listed shares. Account managing institutions include financial instruments traders (i.e., securities companies), banks, trust companies and certain other financial institutions which meet the requirements prescribed by the Book-Entry Transfer Act, and only those financial institutions that meet further stringent requirements of the Book-Entry Transfer Act can open accounts directly at JASDEC. Under the Book-Entry Transfer Act, any transfer of shares is effected through book entry, and title to the shares passes to the transferee at the time when the transferred number of the shares is recorded in the transferee's account at an account managing institution. The holder of an account at an account managing institution is presumed to be the legal owner of the shares held in such account.

Under the Companies Act and the Book-Entry Transfer Act, in order to assert shareholders' rights against us, a shareholder's name and address must be registered in our register of shareholders, except in limited circumstances. Under the clearing system, such registration is made upon our receipt of the necessary information from JASDEC. Nonresidents of Japan or non-Japanese corporations without a permanent establishment in Japan ("Nonresident Shareholders") are required to appoint a standing proxy in Japan or provide a mailing address in Japan. Each Nonresident Shareholder must give notice of a standing proxy or a mailing address to the relevant account managing institution. That notice will be forwarded to us through JASDEC. Japanese securities companies and commercial banks customarily act as standing proxies and provide related services for standard fees. Notices from us to Nonresident Shareholders are delivered to standing proxies or their mailing addresses in Japan.

Our transfer agent is Sumitomo Mitsui Trust Bank, Limited.

#### *Distributions of Surplus*

As a holding company, we expect that most of our cash flow will come from dividends that the Bank pays us. Under some circumstances, various statutory or contractual provisions may restrict the dividends the Bank can pay us. For example, if the Bank does not have sufficient distributable amounts, it will be unable to pay dividends and we, in turn, may be unable to pay dividends on shares of our common stock. Therefore, our ability to pay dividends mainly depends on the financial performance of our principal operating subsidiary, the Bank.

Under the Companies Act, distribution of cash or other assets by a joint stock corporation to its shareholders, including dividends, takes the form of distributions of surplus (as described in “—Restriction on Distributions of Surplus”). We are permitted to make distributions of surplus to our shareholders any number of times per fiscal year, subject to limitations described in “—Restriction on Distributions of Surplus.” Distributions of surplus are required in principle to be authorized by a resolution of a general meeting of shareholders. Distributions of surplus are, however, permitted pursuant to a resolution of the board of directors if:

- (1) our articles of incorporation so provide (our current articles of incorporation do not have a provision to that effect);
- (2) the normal term of office of our directors is no longer than one year (our current articles of incorporation provide that the normal term of office of our directors expires upon the close of the general meeting of shareholders to be held for the last fiscal year ending within one year after the election); and
- (3) our nonconsolidated annual financial statements and certain documents for the latest fiscal year fairly present our assets and profit or loss, as required by an ordinance of the Ministry of Justice.

In an exception to the above rule, even if the requirements described in (1) through (3) are not met, we are permitted to make distributions of surplus in cash to our shareholders by resolutions of the board of directors once per fiscal year if our articles of incorporation so provide. Our current articles of incorporation provide for distributions of surplus as interim dividends, the record date for which is September 30 of each year.

Distributions of surplus may be made in cash or in kind in proportion to the number of shares of common stock held by each shareholder. A resolution of a general meeting of shareholders or by the board of directors authorizing a distribution of surplus must specify the kind and aggregate book value of assets to be distributed, the manner of allocation of the assets to shareholders, and the effective date of the distribution. If a distribution of surplus is to be made in kind, we may, pursuant to a resolution of a general meeting of shareholders or by the board of directors, grant the right to our shareholders to require us to make the distribution in cash instead of in kind. If that right is not granted to shareholders, then the relevant distribution of surplus must be approved by a special resolution of a general meeting of shareholders.

Under our articles of incorporation, the record dates for annual dividends and interim dividends are March 31 and September 30, respectively, in each year. In Japan, both “ex-dividend date” (the date from which purchasers at shares through Japanese stock exchanges will not be entitled to the dividends to be paid to registered shareholders as any record date) and the record date for dividends precede the date of determination of the amount of the dividend to be paid. The ex-dividend date of the shares of common stock is generally the third business day prior to the record date. Under our articles of incorporation, we are not obligated to pay any distributions of surplus to be made in cash which have not been received after five years from the commencement date of those distributions.

#### *Restriction on Distributions of Surplus*

Payment of dividends on shares of common stock is also subject to the prior payment of dividends on shares of preferred stock, if any. In the event we pay an interim dividend on shares of our common stock, the interim dividend payment is also subject to the prior payment of interim dividends on the shares of preferred stock, if any.

When we make a distribution of surplus, we must set aside in our capital reserve or retained earnings reserve an amount equal to one-tenth of the amount of surplus so distributed as required by an ordinance of the Ministry of Justice.

The amount of surplus at any given time must be calculated in accordance with the following formula:

$$A + B + C + D - (E + F + G)$$

In the above formula:

- “A” = the total amount of other capital surplus and other retained earnings, each being the amount that appears on our nonconsolidated balance sheet as of the end of the last fiscal year;
- “B” = if we have disposed of treasury stock after the end of the last fiscal year, the amount of the consideration for that treasury stock received by us less the book value thereof;
- “C” = if we have reduced our stated capital after the end of the last fiscal year, the amount of that reduction less the portion thereof that has been transferred to capital reserve or retained earnings reserve, if any;
- “D” = if we have reduced our capital reserve or retained earnings reserve after the end of the last fiscal year, the amount of that reduction less the portion thereof that has been transferred to stated capital, if any;
- “E” = if we have cancelled treasury stock after the end of the last fiscal year, the book value of that treasury stock;
- “F” = if we have distributed surplus to our shareholders after the end of the last fiscal year, the total book value of the surplus so distributed; and
- “G” = other amounts set forth in an ordinance of the Ministry of Justice, including:
- if we have reduced surplus and increased our stated capital, capital reserve or retained earnings reserve after the end of the last fiscal year, the amount of that reduction; and
  - if we have distributed surplus to shareholders after the end of the last fiscal year, the amount set aside in our capital reserve or retained earnings reserve, if any, as required by ordinances of the Ministry of Justice.

The aggregate book value of surplus distributed by us may not exceed a prescribed distributable amount as calculated on the effective date of the distribution. Our prescribed distributable amount at any given time shall be the amount of surplus less the aggregate of (a) the book value of our treasury stock, (b) the amount of consideration for any treasury stock we disposed of after the end of the last fiscal year, (c) the sum of net unrealized losses on other securities and unrealized losses on land valuation, and (d) other amounts set forth in an ordinance of the Ministry of Justice, including (if the sum of one-half of our goodwill and deferred assets exceeds the total of the stated capital, capital reserve and retained earnings reserve, each being the amount in our nonconsolidated balance sheet at the end of the last fiscal year) all or a certain part of the exceeding amount as calculated in accordance with the ordinances of the Ministry of Justice. If we have prepared interim financial statements in accordance with the ordinances of the Ministry of Justice as described below, and if the interim financial statements have been approved by the board of directors or (if so required) by a general meeting of shareholders, then the prescribed distributable amount must be adjusted to take into account the amount of profit or loss, and the amount of consideration for any of our treasury stock disposed of by us, during the period for which the interim financial statements have been prepared. We will be permitted to prepare nonconsolidated interim financial statements consisting of a balance sheet at any date subsequent to the end of the last fiscal year and an income statement for the period from the first day of the current fiscal year to the date of the balance sheet. Interim financial statements so prepared by us must be audited by our audit committee and accounting auditors, as required by an ordinance of the Ministry of Justice.

### *Voting Rights*

Holders of shares of common stock have one voting right for each unit of shares held by them. Except as otherwise provided by law or by our articles of incorporation, a resolution can be adopted at a general meeting of shareholders by the holder of a majority of the total number of the voting rights represented at the meeting. In our

articles of incorporation the quorum to elect directors is one-third of the total number of voting rights. Our shareholders are not entitled to cumulative voting in the election of directors. Our shareholders may cast their votes by mail or via the internet. Our shareholders may also exercise their voting rights through proxies, provided that the proxies are also holders of shares with voting rights.

The Companies Act provides that certain important matters shall be approved by a special resolution of a general meeting of shareholders. Under our articles of incorporation, the quorum for a special resolution is one-third of the total number of voting rights and the approval of at least two-thirds of the voting rights represented at the meeting is required for adopting a special resolution. Important matters include:

- amending the articles of incorporation (except for amendments that may be authorized by the board of directors under the Companies Act);
- reducing stated capital which meets certain requirements, with some exceptions;
- dissolving, merging or consolidating requiring shareholders' approval;
- establishing a parent and a wholly owned subsidiary relationship by way of a share transfer (*kabushiki-iten*) or share exchange (*kabushiki-kokan*) requiring shareholders' approval;
- transferring the whole or a substantial part of our business;
- transferring all or part of the shares of a subsidiary which meets certain requirements;
- taking over the whole business of another company requiring shareholders' approval;
- corporate split requiring shareholders' approval;
- consolidating shares of common stock;
- acquiring shares of common stock from a specific shareholder other than one of our subsidiaries;
- issuing or transferring new shares or existing shares held by us as treasury stock to persons other than the shareholders at a specially favorable price;
- issuing stock acquisition rights (including those incorporated in bonds with stock acquisition rights) to persons other than the shareholders under specially favorable conditions;
- exempting some liability of a director or corporate executive officer; and
- distributing surplus in-kind if shareholders are not granted the right to require us to make a distribution in cash instead of in-kind.

#### *Capital and Reserves*

When we issue new shares, the amount of the cash or assets paid or contributed by subscribers for new shares (with some exceptions) is required to be accounted for as stated capital, although we may account for an amount not exceeding one-half of the cash or assets as capital reserve by resolutions of the board of directors.

We may reduce our capital reserve or retained earnings reserve generally by resolution of a general meeting of shareholders. We may account for the whole or any part of the reduction as stated capital if we so decide by the same resolution. On the other hand, we may reduce our stated capital generally by special resolution of a general meeting of shareholders and may account for the whole or any part of the reduction as capital reserve if we so decide by the same resolution. We may reduce our surplus and increase either (1) stated capital or (2) capital reserve and/or retained earnings reserve by the same amount, in either case by resolution of a general meeting of shareholders.

#### *Stock Splits*

We may at any time split our outstanding shares of common stock into a greater number of shares of common stock by resolution of the board of directors. When a stock split is to be made, so long as our only class

of outstanding stock is the common stock, we may increase the number of authorized shares in the same ratio as that of the stock split by amending our articles of incorporation. We may effect such an amendment by resolution of the board of directors without shareholder approval.

We must give public notice of a stock split, specifying the record date therefore, not less than two weeks prior to the record date.

#### *Unit Share System*

We have a unit share system, under which 100 shares of our common stock constitute one unit. Under the unit share system, shareholders have one voting right for each unit of shares held by them at a general meeting of shareholders, and shares constituting a fractional unit carry no voting rights. Under our articles of incorporation, the holders of shares constituting a fractional unit do not have shareholder rights except for those specified in the Companies Act or an ordinance of the Ministry of Justice, which include the rights (1) to receive dividends, (2) to receive cash or other assets in case of consolidation or split of shares, share exchange or share transfer, or merger, or (3) to be allotted rights to subscribe for free new shares and stock acquisition rights when those rights are granted to shareholders. We may cease to use the unit share system by amendment to the articles of incorporation without shareholders' approval even though amendments to the articles of incorporation generally require a special resolution of the general meeting of shareholders.

A holder of shares of our common stock constituting less than one unit may at any time request us to purchase those shares. In addition, a holder of shares of our common stock constituting less than one unit may at any time request us to sell to it the number of shares necessary to raise its share ownership to a whole unit. Under the clearing system operated by JASDEC, such request must be made through the financial institution where the shareholder has opened its account.

The price at which shares of our common stock constituting less than one unit will be purchased or sold by us pursuant to such request will be equal to either (a) the closing price of shares of our common stock reported by the Tokyo Stock Exchange on the day when such request is received by our transfer agent, or (b) if no sale takes place on the Tokyo Stock Exchange on that day, the price at which sale of such shares is executed on the Tokyo Stock Exchange immediately thereafter. Pursuant to our share handling regulations, an amount equal to the applicable brokerage commission will be deducted from the price so determined.

Under the new clearing system, shares constituting less than one unit are transferable. Under the rules of the Japanese stock exchanges, however, shares constituting less than one unit do not comprise a trading unit, except in limited circumstances, and accordingly, may not be sold on the Japanese stock exchanges.

#### *Liquidation Rights*

In the event of our liquidation, the assets remaining after payment of all debts, liquidation expenses, taxes and required distribution payments to preferred shareholders, if any, will be distributed among shareholders of common stock in proportion to the respective number of shares which they hold. For liquidation preference for residual assets to the holders of preferred stock, see “—Preferred Stock—Liquidation Rights.”

#### *Redemption Provisions and Sinking Fund Provisions*

Our common stock has no redemption provisions or sinking fund provisions.

#### *Liability to Further Calls or Assessments*

Our shares of common stock outstanding, including shares represented by the ADSs, are fully paid and nonassessable.



### *Legal Restrictions on Acquisitions of Shares*

The FIEA and its related regulations require any person who has become solely or jointly a beneficial holder of more than 5% of the total issued shares of capital stock of a company listed on any Japanese stock exchange, to file with the director of an appropriate local finance bureau of the Ministry of Finance within five business days a report concerning the shareholdings. With some exceptions, a similar report must also be filed in respect of any subsequent change of 1% or more in those holdings or any change in material matters set out in reports previously filed. For this purpose, shares issuable to a holder upon conversion of convertible securities or exercise of share subscription warrants or stock acquisition rights are taken into account in determining both the number of shares held by such holder and the issuer's total issued share capital. Copies of each report must also be furnished to all the Japanese stock exchanges on which the shares are listed.

Under the Banking Act, a person who desires to hold 20% (in some exceptional cases, 15%) or more of the voting rights of a bank is required to obtain advance approval of the FSA Commissioner. In addition, any person who becomes a holder of more than 5% of the voting rights of a bank holding company or a bank must report the ownership of the voting rights to the director of an appropriate local finance bureau within five business days. This requirement is separate from the significant shareholdings report required under the FIEA. See "Item 4.B. Business Overview—Regulations in Japan—Regulations for Stabilizing the Financial System—Examination and Reporting Applicable to Shareholders of a Bank."

### *Subscription Rights*

Holders of shares of our common stock have no preemptive rights. Authorized but unissued shares of common stock may be issued at the times, and upon the terms the board of directors determines, subject to the limitations as to the issuance of new shares of common stock at a specially favorable price mentioned in "—Voting Rights" above. The board of directors may, however, determine that the holders of shares of common stock be given subscription rights to new shares of common stock, in which case they must be given on uniform terms to all holders of shares of common stock at a record date of which not less than two weeks' prior public notice must be given. Each of the shareholders to whom subscription rights is given must also be given at least two weeks' prior notice of the date on which the rights expire.

### *Stock Acquisition Rights*

We may issue stock acquisition rights (*shinkabu-yoyakuken*). Holders of stock acquisition rights are entitled to acquire shares from us upon payment of the applicable exercise price and subject to other terms and conditions thereof. We may also issue bonds with stock acquisition rights (*shinkabu-yoyakuken-tsuki-shasai*). The issuance of stock acquisition rights and bonds with stock acquisition rights may be authorized by the board of directors unless it is made under specially favorable conditions, as described in "—Voting Rights."

### *Record Date*

March 31 is the record date for the payment of year-end dividends and the determination of shareholders entitled to vote at the ordinary general meeting of shareholders. September 30 is the record date for payment of interim dividends. In addition, by determination by corporate executive officers under the authority delegated by the board of directors and after giving at least two weeks' prior public notice, we may at any time set a record date in order to determine the shareholders who are entitled to certain rights pertaining to the common stock.

Under the Book-Entry Transfer Act, we are required to give notice of each record date to JASDEC at least two weeks prior to such record date. JASDEC is required to give us notice of the names and addresses of our shareholders, the numbers of shares held by them, and other relevant information at a record date promptly after we set it.

### *Our Acquisition of Our Own Shares of Common Stock*

We may acquire shares of our common stock (1) by way of purchase on any Japanese stock exchange on which shares of our common stock are listed, or by way of tender offer (in either case, pursuant to an ordinary resolution of a general meeting of shareholders or a resolution of the board of directors), (2) from a specific shareholder other than any of our subsidiaries (pursuant to a special resolution of a general meeting of shareholders), or (3) from any of our subsidiaries (pursuant to a resolution of the board of directors). In the case of (2) above, any other shareholder may make a request to a director, at least five days prior to the relevant general meeting of shareholders, to include the shareholder as a seller in the proposed purchase. However, that right is not available if the purchase price or any other consideration to be received by the relevant specific shareholder does not exceed the then market price of the shares to be purchased from the shareholder.

The total amount of the purchase price of shares of common stock may not exceed the prescribed distributable amount, as described in “—Common Stock—Restriction on Distributions of Surplus.”

We may hold the shares of common stock acquired, and may generally dispose of or cancel those shares by resolution of the board of directors.

### *Disposal of Shares of Our Common Stock Held by Shareholders Whose Location Is Unknown*

We are not required to send notices to a shareholder if notices have failed to arrive for five consecutive years or more at his or her address in our register of shareholders unless we are notified of a new address. If the shareholder also fails to receive distributions of surplus on the shares for five or more consecutive years at his or her address in our register of shareholders or otherwise as specified, then we may in general dispose of those shares at their then-market price and hold or deposit the proceeds of that disposal on behalf of that shareholder.

### ***Preferred Stock***

The following is a summary of information concerning provisions of our articles of incorporation.

#### *General*

At the date of this annual report, under our articles of incorporation, we are authorized to issue 167,000 shares of Type 5 preferred stock, 167,000 shares of Type 7 preferred stock, 115,000 shares of Type 8 preferred stock and 115,000 shares of Type 9 preferred stock. In June 2013, our articles of incorporation were amended to delete the provisions regarding Type 6 preferred stock, as these provisions have become unnecessary.

In March 2005, we issued 70,001 shares of our 1st series Type 6 preferred stock for an aggregate issue price of ¥210 billion. The Type 6 preferred stock was allocated using a third-party allocation of shares at a price of ¥3,000,000 per share, ¥1,500,000 of which was accounted for as stated capital. Sumitomo Life Insurance Company acquired 23,334 shares, Nippon Life Insurance Company acquired 20,000 shares, Mitsui Life Insurance Company, Limited acquired 16,667 shares and Mitsui Sumitomo Insurance Company, Limited acquired 10,000 shares. On April 1, 2011, we acquired and cancelled all of the outstanding 1st series Type 6 preferred stock.

At the date of this annual report, we have no preferred stock outstanding. The following is a summary of the relevant provisions of our articles of incorporation regarding preferred stock.

#### *Preferred Dividends*

Our articles of incorporation provide that, if we pay dividends, we must pay cash dividends to holders of shares of our preferred stock in preference to the holders of our common stock. If preferred interim dividends stipulated in our articles of incorporation were paid during the relevant fiscal year, the amount of the preferred interim dividends shall be subtracted from the amount of annual preferred dividends.

Our failure to declare annual preferred dividends in full in respect of any fiscal year on a series of preferred stock gives the holders of that preferred stock certain voting rights.

#### *Liquidation Rights*

In the event of our voluntary or involuntary liquidation, holders of our preferred stock will be entitled, equally in rank as among themselves and in preference over shares of our common stock, to receive out of our residual assets upon liquidation a distribution of ¥3,000,000 per share.

Preferred stockholders are not entitled to any further dividends or other participation or distribution of our residual assets upon our liquidation.

#### *Voting Rights*

Our articles of incorporation provide that holders of preferred stock are only entitled to receive notice of, and to vote at, a general meeting of shareholders;

- from the commencement of our ordinary general meeting of shareholders if an agenda for approval to declare a preferred dividend is not submitted to the meeting; or
- from the close of our ordinary general meeting of shareholders if a proposed resolution to declare a preferred dividend is not approved at the meeting.

In both cases, these rights of our preferred stockholders lapse when a resolution of a general meeting of shareholders declaring a preferred dividend is approved.

The Companies Act provides that a separate resolution of a meeting of the holders of the preferred stock is required in order to approve certain matters which would prejudice their interests, including;

- amendments to the articles of incorporation to add new classes of shares to be issued, alter the terms of the shares or increase the number of shares or authorized number of any class of shares, with certain exceptions;
- consolidations or splits of shares;
- dividends of shares or stock acquisition rights to shareholders without any consideration;
- grants of preemptive rights for new shares or stock acquisition rights;
- amalgamations or mergers;
- certain corporate splits;
- share exchanges;
- share transfers; and
- other matters set forth in the articles of incorporation.

Except for the amendments described above, the articles of incorporation may expressly permit certain of the above matters to be approved without a separate resolution. Our articles of incorporation do not include that express permission.

#### *Ranking*

If issued, the outstanding shares of our preferred stock would rank *pari passu* with each other as to participation in our profits or assets, including dividends and distributions of residual assets upon our liquidation.

Unless holders of our preferred stock give approval, we may not create or issue any other shares ranking in priority in terms of the right to receive distributions of surplus or the right to receive distributions of residual assets or otherwise in priority to the preferred stock already issued. However, without obtaining the consent of holders of the preferred stock, we may issue other preferred stock ranking *pari passu* with the preferred stock already issued as to the order of participation in our profits or assets, carrying rights to preferred dividends, or terms of conversion that our board of directors may determine, subject to limitations set forth in our articles of incorporation and the Companies Act.

#### *Purchase or Redemption of Preferred Stock*

Subject to the requirements of the Companies Act, we may purchase out of our prescribed distributable amounts any shares of our preferred stock outstanding at any time and cancel that preferred stock. In June 2013, we amended our articles of incorporation in order to qualify our preferred stock for inclusion in our regulatory capital in accordance with the new FSA capital adequacy guidelines based on the Basel III framework. Under the amended articles of incorporation, we will acquire our outstanding preferred stock without consideration or in exchange for common stock if we become non-viable.

#### *Mandatory Redemption Provisions and Sinking Fund Provisions*

Our articles of incorporation do not provide any mandatory redemption provisions and sinking fund provisions.

#### *Stock Splits*

Our articles of incorporation provide that no stock split shall be made to the preferred stock unless otherwise provided for in any law or regulation.

#### *Subscription Rights*

Our articles of incorporation provide that we shall not grant holders of preferred stock any right to subscribe for new shares or stock acquisition rights.

### **Conditions to Change Shareholders' Rights**

Our articles of incorporation do not specify what actions or quorums are required to change the rights of holders of our stock.

### **General Meeting of Shareholders**

Our ordinary general meeting of shareholders is held within three months after the end of each fiscal year. In addition, we may hold an extraordinary general meeting of shareholders whenever necessary. Notice of a general meeting of shareholders stating the place, the time and the purpose thereof, and certain matters set forth in the Companies Act and in ordinances of the Ministry of Justice, must be given to each holder of shares of common stock with voting rights (or to the standing proxy or mailing address in Japan of a nonresident shareholder) at least two weeks prior to the date set for the meeting. The record date for an ordinary general meeting of shareholders is March 31 of each year.

Any shareholder or group of shareholders holding at least three percent of the total outstanding voting rights, for a continuous period of six months or longer, may require the convocation of a general meeting of shareholders for a particular purpose. Unless such a general meeting of shareholders is convened promptly, or a convocation notice of a meeting which is to be held not later than eight weeks from the day of such demand is dispatched, the requiring shareholders may, upon obtaining court approval, convene such general meeting of shareholders.

Any shareholder holding at least 300 voting rights or one percent of our total number of voting rights for six months or longer may propose a matter to be considered at a general meeting of shareholders by submitting a written request to a director at least eight weeks prior to the date of the meeting. Any of the minimum percentages, time periods and number of voting rights necessary for exercising the minority shareholder rights described above may be decreased or shortened if our articles of incorporation so provide. Our articles of incorporation currently do not include any of those provisions.

To attend a general meeting of shareholders in person or by proxy, shareholders must provide proof of identity upon request. Shareholders may appoint a proxy by a written power of attorney for the meeting. Such proxy must be one of our shareholders with voting rights.

### **Limitations on the Rights to Hold Our Common Stock by Foreign Investors**

There are no specific limitations imposed by the laws of Japan, our articles of incorporation, or our other constituent documents, on the rights of nonresidents or foreign shareholders to hold or exercise voting rights on our shares of common stock or preferred stock. For additional information, See “Common Stock—Voting Rights.”

### **Anti-Change in Control Provisions**

There is no provision in our articles of incorporation that would have the effect of delaying, deferring or preventing a change in control of us, and that would operate only with respect to a merger, consolidation, acquisition or corporate restructuring involving us.

### **Provisions Governing Changes in the Company’s Capital**

We have no conditions more stringent than are required by law imposed by our articles of incorporation governing changes in capital.

## **10.C. MATERIAL CONTRACTS**

All contracts that we are currently a party to, or were a party to during our two most recently completed fiscal years up to the date of this annual report, were entered into in the ordinary course of business or were otherwise immaterial.

## **10.D. EXCHANGE CONTROLS**

### **Japanese Foreign Exchange Regulations**

The Foreign Exchange and Foreign Trade Act of Japan, and the cabinet orders and ministerial ordinances, collectively known as the Foreign Exchange Act, set forth, among other things, the regulations relating to the receipt by nonresidents of Japan of payment with respect to our shares, and the acquisition and holding of our shares by nonresidents of Japan and foreign investors, both as defined below.

Nonresidents of Japan are individuals who are not residents in Japan and corporations whose principal offices are located outside Japan. Generally, branches and offices of nonresident corporations located in Japan are regarded as residents of Japan while the branches and offices of Japanese corporations located outside Japan are regarded as nonresidents of Japan.

“Foreign investors” are defined as:

- individuals not residing in Japan;
- corporations which are organized under the laws of foreign countries or whose principal offices are located outside Japan;

- corporations of which 50% or more of the voting rights are held, directly or indirectly, by individuals not residing in Japan and/or corporations which are organized under the laws of foreign countries or whose principal offices are located outside Japan; and
- corporations, a majority of officers (or a majority of officers having the power of representation) of which are individuals not residing in Japan.

### **Acquisition of Shares**

In general, a nonresident who acquires our shares from a resident of Japan is not subject to any prior filing requirement, although the Foreign Exchange Act authorizes the Minister of Finance of Japan and the Ministers responsible for the business to require a prior submission for any such acquisition in certain limited circumstances.

If a foreign investor acquires shares of our common stock, and, together with parties who have a special relationship with such foreign investor, holds 10% or more of the issued shares of our common stock as a result of the acquisition, the foreign investor must file a report of the acquisition with the Minister of Finance and any other competent minister by the fifteenth day of the month immediately following the month to which the date of such acquisition belongs.

Except for the general limitation under Japanese antitrust and antimonopoly regulations against shareholdings in the capital stock of a Japanese corporation, which lead or may lead to a restraint of trade or monopoly, and general limitations under the Companies Act or our articles of incorporation on the rights of shareholders applicable, regardless of residence or nationality, there is no limitation under Japanese law and regulations applicable to us, or under our articles of incorporation on the rights of nonresident or foreign shareholders to hold or exercise voting rights on our shares.

### **Dividends and Proceeds of Sale**

Under the Foreign Exchange Act, dividends paid on, and the proceeds of sales in Japan of, shares held by nonresidents of Japan, may, in general, be converted into any foreign currency and repatriated abroad. The acquisition of our shares by nonresidents by way of a stock split is not, in general, subject to any notification or reporting requirements.

## **10.E. TAXATION**

### **Japanese Taxation**

The following is a summary of the principal Japanese national tax consequences to owners of shares of our common stock or ADSs representing shares of our common stock who are Nonresident Shareholders. The statements regarding Japanese tax laws set forth below are based on the laws and treaties currently in force and as interpreted by the Japanese tax authorities at the date of this annual report and are subject to changes in the applicable Japanese law or tax treaties, conventions or agreements, or in the interpretation thereof, occurring after that date. This summary does not include all possible tax considerations which may apply to a particular investor and potential investors are advised to satisfy themselves as to the overall tax consequences of the acquisition, ownership and disposition of shares of our common stock or ADSs, including specifically the tax consequences under Japanese law, the laws of the jurisdiction of which they are resident, and any tax treaty, convention or agreement between Japan and their country of residence, by consulting their own tax advisors.

For the purpose of Japanese taxation, a Nonresident Shareholder of ADSs will generally be treated as the owner of the shares underlying the ADSs, which may be evidenced by one or more American Depositary Receipts (“ADRs”).

Generally, a Nonresident Shareholder of shares of our common stock or ADSs will be subject to Japanese income tax collected by way of withholding on dividends we pay. Stock splits are, in general, not subject to Japanese income tax or corporation tax.

In the absence of any applicable tax treaty, convention or agreement reducing the maximum rate of Japanese withholding tax or allowing exemption from Japanese withholding tax, the rate of Japanese withholding tax applicable to dividends paid by a Japanese corporation to Nonresident Shareholders is generally 20.42%. However, with respect to dividends paid on listed shares issued by a Japanese corporation (including shares of our common stock or ADSs) to Nonresident Shareholders, except for any individual shareholder who owns 3% or more of the total number of shares issued by the relevant Japanese corporation, the aforementioned 20.42% withholding tax rate is reduced to 15.315% for dividends due and payable on or before December 31, 2037. Due to the imposition of a special additional withholding tax (2.1% of the original withholding tax amount) to secure funds for reconstruction from the Great East Japan Earthquake, the original withholding tax rate of 15% and 20%, as applicable, has been effectively increased, respectively, to 15.315% and 20.42%, during the period beginning on January 1, 2013 and ending on December 31, 2037.

At the date of this annual report, Japan has income tax treaties in force, whereby the above-mentioned withholding tax rate is reduced, generally, to 15% for portfolio investors, with, among others, Belgium, Canada, Denmark, Finland, Germany, Ireland, Italy, Luxembourg, New Zealand, Norway, Singapore and Spain, while the income tax treaties with, among others, Australia, France, Hong Kong, the Netherlands, Portugal, Sweden, Switzerland, the United Kingdom and the United States generally reduce the withholding tax rate to 10% for portfolio investors. In addition, under the income tax treaty between Japan and the United States, dividends paid to pension funds which are qualified U.S. residents eligible to enjoy treaty benefits are exempt from Japanese income taxation by way of withholding or otherwise unless the dividends are derived from the carrying on of a business, directly or indirectly, by those pension funds. Under the income tax treaties with the Netherlands, Switzerland and the United Kingdom, similar treatment will be applied to dividends. Under Japanese tax law, any reduced maximum rate applicable under a tax treaty will be available when the maximum rate is below the rate otherwise applicable under Japanese tax law referred to in the preceding paragraph with respect to the dividends to be paid by us on shares of common stock or ADSs. A Nonresident Shareholder of shares of our common stock who is entitled, under any tax treaty, to a reduced rate of Japanese withholding tax, or exemption therefrom, as the case may be, is required to submit an Application Form for Income Tax Convention Regarding Relief from Japanese Income Tax and Special Income Tax for Reconstruction on Dividends (together with any other required forms and documents) in advance, through the withholding agent, to the relevant tax authority before payment of dividends. A standing proxy for a Nonresident Shareholder may provide the application services. See “Item 10.B. Memorandum and Articles of Incorporation—Common Stock—General.” In addition, a simplified special filing procedure is available for Nonresident Shareholders to claim treaty benefits of exemption from or reduction of Japanese withholding tax by submitting a Special Application Form for Income Tax Convention Regarding Relief from Japanese Income Tax and Special Income Tax for Reconstruction on Dividends of Listed Stocks (together with any other required forms and documents). With respect to ADSs, this reduced rate or exemption will be applicable to Nonresident Shareholders of ADSs if the Depositary or its agent submits two Application Forms (one before payment of dividends and the other within eight months after the record date concerning such payment of dividends), together with certain other documents. To claim this reduced rate or exemption, Nonresident Shareholders of ADSs will be required to file a proof of taxpayer status, residence and beneficial ownership, as applicable, and to provide other information or documents as may be required by the Depositary. A Nonresident Shareholder who is entitled, under any applicable tax treaty, to a reduced rate of Japanese withholding tax below the rate otherwise applicable under Japanese tax law mentioned above, or exemption therefrom, as the case may be, but fails to submit the required application in advance may nevertheless be entitled to claim a refund from the relevant Japanese tax authority of withholding taxes withheld in excess of the rate under an applicable tax treaty (if the Nonresident Shareholder is entitled to a reduced treaty rate under the applicable tax treaty) or the full amount of tax withheld (if the Nonresident Shareholder is entitled to an exemption under the applicable tax treaty), as the case may be, by complying with certain subsequent filing

procedures. We do not assume any responsibility to ensure withholding at the reduced treaty rate, or exemption therefrom, for shareholders who would be so eligible under an applicable tax treaty but where the required procedures as stated above are not followed.

Gains derived from the sale outside Japan of shares of our common stock or ADSs by a Nonresident Shareholder who is a portfolio investor are, in general, not subject to Japanese income tax or corporation tax.

Any deposits or withdrawals of shares of our common stock by a Nonresident Shareholder in exchange for ADSs are, in general, not subject to Japanese income or corporation tax.

Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired shares of our common stock or ADSs from another individual as a legatee, heir or donee, even if the individual is not a Japanese resident.

Potential investors should consult with their own tax advisors regarding the Japanese tax consequences of the ownership and disposition of shares of common stock or ADSs in light of their particular situations.

### **United States Federal Income Taxation**

The following is a discussion of material U.S. federal income tax consequences to the U.S. Holders described below of owning and disposing of shares or ADSs, but it does not purport to be a comprehensive description of all the tax considerations that may be relevant to a particular person's decision to hold the shares or ADSs. This discussion does not address U.S. state, local or non-U.S. tax consequences. As used herein, a U.S. Holder is a beneficial owner of shares or ADSs that is, for U.S. federal income tax purposes: (1) a citizen or individual resident of the United States; (2) a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or (3) an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

The discussion applies only to U.S. Holders who hold the shares or ADSs as capital assets for U.S. federal income tax purposes. The discussion does not address any alternative minimum or Medicare contribution tax consequences, nor does it address all of the tax consequences which may be applicable to special classes of holders, such as:

- certain financial institutions;
- insurance companies;
- dealers and certain traders in securities;
- persons holding shares or ADSs as part of a hedge, straddle, conversion or other integrated transaction;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- regulated investment companies;
- real estate investment trusts;
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes;
- persons liable for the alternative minimum tax;
- tax-exempt entities, "individual retirement accounts" or "Roth IRAs";
- persons who acquired our shares or ADSs pursuant to the exercise of an employee stock option or otherwise as compensation;
- persons holding shares or ADSs that own or are deemed to own 10% or more of our voting stock; or
- persons holding shares or ADSs in connection with a trade or business conducted outside the United States.



If a partnership holds shares or ADSs, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. Partnerships holding shares or ADSs, and partners in such partnerships, should consult their own tax advisors.

This discussion is based on the Internal Revenue Code of 1986, as amended, administrative pronouncements, judicial decisions and final, temporary and proposed United States Treasury regulations, as well as the double taxation treaty between Japan and the United States (“Treaty”) all as of the date hereof. These laws are subject to change, possibly on a retroactive basis. It is also based in part on representations by the Depositary and assumes that each obligation under the Deposit Agreement and any related agreement or undertaking will be performed in accordance with its terms.

In general, a U.S. Holder who owns ADSs will be treated as the owner of the underlying shares represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if a U.S. Holder exchanges ADSs for the underlying shares represented by those ADSs.

The U.S. Treasury has expressed concern that parties to whom ADSs are released before shares are delivered to the depositary, or intermediaries in the chain of ownership between holders and the issuer of the security underlying the ADSs, may be taking actions that are inconsistent with the claiming of foreign tax credits by holders of ADSs. These actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain noncorporate holders. Accordingly, the creditability of Japanese taxes, and the availability of the reduced tax rate for dividends received by certain noncorporate U.S. Holders, each described below, could be affected by actions taken by such parties or intermediaries.

U.S. Holders should consult their own tax advisors concerning the U.S. federal, state, local and non-U.S. tax consequences of owning and disposing of shares or ADSs in their particular circumstances.

This discussion assumes that we are not, and will not become, a passive foreign investment company (a “PFIC”), as described below.

### ***Taxation of Distributions***

Distributions received by a U.S. Holder on shares or ADSs, including the amount of any Japanese taxes withheld, other than certain pro rata distributions of shares, will constitute foreign-source dividend income to the extent paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Because we do not maintain calculations of our earnings and profits under U.S. federal income tax principles, we expect that distributions generally will be reported to a U.S. Holder as dividends. The amount of the dividend a U.S. Holder will be required to include in income will equal the U.S. dollar value of the yen dividend, calculated by reference to the exchange rate in effect on the date the payment is received by the holder, or in the case of ADSs, by the Depositary, regardless of whether the payment is converted into U.S. dollars on the date of receipt. If the dividend is converted into U.S. dollars on the date of receipt, the U.S. Holder generally should not be required to recognize foreign currency gain or loss in respect of the dividend payment. A U.S. Holder may have foreign currency gain or loss if the dividend is converted into U.S. dollars after the date of receipt. Any foreign currency gain or loss realized by a U.S. Holder on a sale or other disposition of yen will be U.S.-source ordinary income or loss. Corporate U.S. Holders will not be entitled to claim a dividends-received deduction with respect to our dividends. Subject to applicable limitations, and the discussion above regarding concerns expressed by the U.S. Treasury, dividends received from us by certain noncorporate U.S. Holders may be taxable at favorable rates. Noncorporate U.S. Holders should consult their own tax advisors to determine whether they are subject to any special rules that limit their ability to be taxed at these favorable rates.

Subject to applicable restrictions and limitations that vary depending upon the U.S. Holder’s circumstances and the discussion above regarding concerns expressed by the U.S. Treasury, Japanese taxes withheld from dividends on shares or ADSs (at a rate not exceeding the applicable rate provided by the Treaty, in the case of a

U.S. Holder who is eligible for the Treaty's benefits) will be creditable against the U.S. Holder's U.S. federal income tax liability. Instead of claiming a credit, a U.S. Holder may elect to deduct such Japanese taxes in computing its taxable income, subject to generally applicable limitations. The limitation on foreign taxes eligible for credit is calculated separately with respect to two categories of income, passive income and general income. The rules governing foreign tax credits are complex. U.S. Holders should consult their own tax advisors regarding the availability of foreign tax credits and deductions in their particular circumstances.

#### ***Sale and Other Disposition of the Shares or ADSs***

A U.S. Holder will generally recognize capital gain or loss on the sale or other disposition of shares or ADSs, which will be long-term capital gain or loss if the U.S. Holder has held the shares or ADSs for more than one year. The amount of the U.S. Holder's gain or loss will equal the difference between the amount realized on the sale or other disposition and the U.S. Holder's tax basis in the shares or ADSs, each as determined in U.S. dollars. The deductibility of capital losses is subject to limitations. Any gain or loss will generally be U.S.-source gain or loss for foreign tax credit purposes.

#### ***PFIC Rules***

Based upon certain proposed Treasury regulations that are not yet in effect, but are generally proposed to become effective for taxable years beginning after December 31, 1994, we believe that we were not a PFIC for U.S. federal income tax purposes for our taxable year ended March 31, 2017. However, since PFIC status depends upon the composition of our income and assets and the market value of our assets from time to time, there can be no assurance that we will not be a PFIC for any taxable year. If we were a PFIC for any taxable year during which a U.S. Holder held shares, certain adverse U.S. federal income tax consequences could apply to the U.S. Holder.

#### ***Information Reporting and Backup Withholding***

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries may be subject to information reporting and backup withholding unless the U.S. Holder is an exempt recipient or, in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

Certain U.S. Holders who are individuals (or entities closely held by individuals) may be required to report information relating to their ownership of an interest in certain foreign financial assets, including stock of a non-U.S. person, generally on Form 8938, subject to exceptions (including an exception for stock held through a U.S. financial institution). U.S. Holders should consult their tax advisors regarding their reporting obligations with respect to the shares or ADSs.

#### **10.F. DIVIDENDS AND PAYING AGENTS**

Not applicable.

#### **10.G. STATEMENT BY EXPERTS**

Not applicable.

#### **10.H. DOCUMENTS ON DISPLAY**

We are subject to the reporting requirements of the Securities Exchange Act of 1934. In accordance with these requirements, we file annual reports on Form 20-F and furnish periodic reports on Form 6-K with the SEC.

These materials, including this annual report and the exhibits thereto, may be inspected and copied at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. The public may obtain information on the operation of the SEC's Public Reference Room by calling the SEC in the United States at 1-800-SEC-0330. The SEC also maintains a website at <https://www.sec.gov> that contains reports and proxy information regarding issuers that file electronically with the SEC. Some of the information may also be found on our website at <http://www.smfg.co.jp>.

#### **10.I. SUBSIDIARY INFORMATION**

Not applicable.

#### **Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk**

On April 1, 2017, we introduced Group-wide business units and a CxO system. In addition, we transitioned to a company with three statutory committees: a nominating committee, an audit committee and a compensation committee from a board of corporate auditors governance system, following approval at our ordinary general meeting of shareholders held on June 29, 2017. In connection with the foregoing, we changed our risk management system, including by introducing a Group Chief Risk Officer who reports to the board of directors and its internal committees and conducting various meetings for business executions to centrally identify and manage risks. The following information regarding our risk management system is presented at March 31, 2017. We will disclose our risk management system information in accordance with the new structure beginning with the fiscal year ending March 31, 2018.

#### **Quantitative and Qualitative Information about Risk Management**

##### ***Basic Approach***

As risks in the financial services industry increase in diversity and complexity, risk management (identifying, measuring, and controlling risk) has never been more important in the management of a financial institution.

Business and risk view is shared across the Group, and we have an overarching Risk Appetite Framework ("RAF") for systematic management of risk. RAF guides us in conducting business by clarifying the type and amount of risk we should take to expand earnings.

##### ***Risk Appetite Framework***

Within the Group's overall exercise of risk controls, we seek to secure appropriate risk / return by clarifying the types and levels of risk that we are willing to take on or prepared to tolerate for profit growth (risk appetite).

RAF plays a key role in our realization of sustainable growth, and we position RAF and business strategy as the two pivots of our business management.

Our basic position and risk appetite specifics are set out in an internal document for Group-wide use.

##### ***Risk Appetite***

We have a Risk Appetite Statement that provides a qualitative explanation of our approach to risk taking and risk management for each category: financial soundness, profitability, liquidity, credit, market and operational and others (including processing, system and compliance). We also have quantitative Risk Appetite Measures that function as benchmarks for risks that we are considering taking and for risk / return.

As an illustration, for the financial soundness category, our Risk Appetite Statement has “maintain a sufficient level of capital to support sustainable growth” as the overall policy. It also includes specific policies for the fiscal year in question based on our view of the environment and risk. The Risk Appetite Measures are numerous and include Common Equity Tier 1 ratio.

#### *Operation of Risk Appetite Framework*

The process of setting risk appetite for each fiscal year begins with discussions on the current and future business environment and risks by the Management Committee and the board of directors. Based on their shared view of risks, they select Top Risks, which are the risks that may have a material impact on the Group. Risk appetite is then decided on the basis of stress test results and other risk analysis that illustrates impact if risks should be realized. Business strategy and policies for the conduct of business are drawn up on the basis of the risk appetite decisions.

Views of the environment and risks, including Top Risks, are continuously updated in the course of the fiscal year’s business and the risk appetite situation is monitored regularly through the medium of the Risk Appetite Measures and other controls. The results are reported to the Management Committee and the board of directors.

If risk appetite monitoring reveals notable deviation from the measures set at the start of the fiscal year, consideration is given to revising risk appetite and business strategy as required.

#### ***Comprehensive risk management***

We manage risk systematically across the entire Group. Thorough assessments of the environment and risk, including Top Risks, are carried out to ensure effective operation of RAF, and there is a framework for risk analysis (stress tests) and risk capital management.

#### *Types of Risk to be Managed*

We classify risk into the following categories:

*Credit Risk.* Credit risk is the possibility of a loss arising from a credit event, such as deterioration in the financial condition of a borrower, that causes an asset (including off-balance sheet transactions) to lose value or become worthless.

*Market Risk.* Market risk is the possibility that fluctuations in interest rates, foreign exchange rates or stock prices will change the market value of financial products, leading to a loss.

*Liquidity Risk.* Liquidity risk is the risk that there may be difficulties in raising funds needed for settlements, as a result of the mismatching of uses of funds and sources of funds or unexpected outflows of funds, which may make it necessary to raise funds at higher rates than normal.

*Operational Risk (including Processing Risk and System Risk).* Operational risk is the possibility of losses arising from inadequate or failed internal processes, people, and systems or from external events.

*Processing Risk.* Processing risk is the possibility of losses arising from negligent processing by employees, accidents or unauthorized activities.

*System Risk.* System risk is the possibility of losses arising from failure, malfunction, or unauthorized use of information systems.

### *Top Risks*

We select the risks that may have a material impact on business management, mainly from the potential risks for the next 12 months, and label these Top Risks. The selection of Top Risks involves a wide-range screening for candidates, an evaluation of each risk's potential impact and probability of occurrence, and full discussion by the Risk Committee, the Management Committee, and the board of directors.

Environment and risk views are shared across the Group by means of this process, and we seek to refine our risk management by continually checking on the status of our responses to each Top Risk.

### *Stress Tests*

In the current volatile business environment, stress tests are essential for analyzing and estimating the effects of stress events brought about by risks such as economic recession and market turbulence. When establishing our medium-term management plan or annual business plan, we conduct stress testing to appraise the likely financial impact of various stress events on the Group, so that we can prepare actions in advance to deal with such events as they occur.

Stress testing consists of four processes: scenario design, scenario finalization, calculation of the impact on financial items, and confirmation by the Management Committee and the board of directors. In the scenario design process, scenarios are designed based on the Corporate Risk Management Department's summation of Top Risks discussed by the Risk Committee, the Management Committee, and the board of directors and the views of related departments on factors such as future global trends. In the scenario finalization process, scenarios are revised as necessary based on the outcome of discussions between specialists and related departments. In the calculation of the impact on financial items process, we calculate the financial impact under each scenario and analyze their aggregate on financial items such as the Common Equity Tier 1 ratios. After these three processes, the scenarios and impact on financial items are reported to the Management Committee and the board of directors for verification of the appropriateness of business strategy.

### *Risk Capital Management*

In managing the risk categories shared by the Group as a whole, we apply a uniform standard, risk capital based on value at risk ("VaR"). This measurement is applied to credit, market, and operational risk, taking account of each risk's particular characteristics and individual Group company business characteristics, and used to set upper limits within the scope of our resources (capital). Risk capital is also used in optimizing capital allocation on a Group consolidated basis.

Disclosures of the objectives, policies and processes to manage each risk and the methods used to measure each risk have been included in "Credit Risk," "Market Risk and Liquidity Risk," "Operational Risk, Processing Risk and System Risk" and "Other Risk."

### *Fundamental Principles*

We have established a basic approach to be employed in risk management, which is included in the manual entitled Policies on Comprehensive Risk Management. The fundamental principles are as follows:

- *Risk management on a Group-wide basis.* Various risks taken at Group companies are managed on a consolidated basis according to the nature of each company's business and significance, in conformity with the relevant laws and regulations.
- *Risk management based on quantification.* The risks are quantitatively managed according to the relevant risk characteristics after specifying the scope of quantification.
- *Ensuring consistency with the business strategy.* Risk management is to be consistent with the business strategy.

- *System for check and balance.* A risk management framework is developed to ensure effective check and balance function for business operations.
- *Measures for emergencies and critical situations.* Necessary measures are developed by assuming situations and scenarios as to materialization of risk which would have a significant impact on the business and financial management of the Group.
- *Verification of the actual situation.* The actual risk management process is verified by the Internal Audit Unit.

### ***Risk Management System***

Reflecting the importance of risk management, top management plays an active role in the process. The Group-wide basic policies for risk management are determined by the Management Committee before being authorized by the board of directors.

In line with our Group-wide basic policies for risk management, the functions for managing major risks are consolidated at the Corporate Risk Management Department, and we seek to refine our risk management system by means such as across-the-board reviews for each risk category. In addition, the Internal Audit Unit audits risk management to verify whether the system is working properly.

Risk management systems are in place at the individual Group companies for their particular businesses in accordance with the basic policies. At the Bank, for example, specific departments have been appointed for risks associated with settlement in addition to the overall handling of such categories as credit and market risk. Each risk category is managed in accordance with its particular characteristics.

### ***Risk Committee***

The Risk Committee is an internal committee of the board of directors, composed of outside directors as well as inside and outside experts.

The Risk Committee meets regularly to discuss a wide range of risk management and compliance topics, including Top Risks and RAF, from a specialist viewpoint. The results are reported to the Management Committee and the board of directors for reflection in the Group operations.

### ***Implementation of Basel Regulation***

Basel III is an international agreement on minimum capital, leverage, liquidity and other requirements applicable to internationally active banks. The Basel III capital framework was implemented in Japan from March 31, 2013 pursuant to revised capital adequacy guidelines adopted by the FSA, subject to the phase-in of some requirements, as contemplated by Basel III.

The framework of Basel III is a continuation of Basel II, with multiple approaches to calculating capital requirements; we adopted the advanced IRB approach for credit risk from March 31, 2009, and the AMA for operational risk from March 31, 2008.

Details of relevant initiatives are provided below, and detailed information on our capital ratio is provided in the discussion on Capital Ratio Information in “Item 4.B. Business Overview—Regulations in Japan—Regulations Regarding Capital Adequacy and Liquidity” and “Item 5.B. Liquidity and Capital Resources—Capital Management.”

### **Credit Risk**

Credit risk is the risk of incurring losses from decline or loss of the value of an asset (including off-balance sheet items) that is caused by a credit event including but not limited to the deterioration of financial condition of

a borrower. Overseas credits transactions also entail country risk, which is closely related to credit risk. Country risk is the risk of incurring losses caused by changes in political or economic conditions. Credit exposures arise primarily from lending activities such as loans and advances, acquiring investment securities, derivative transactions, and off-balance sheet transactions such as unused portion of loan commitments.

### ***Credit Risk Management System***

Credit risk is the most significant risk to which we are exposed. The purpose of credit risk management is to keep the credit risk exposure to a permissible level relative to capital, to maintain the quality of assets and to ensure returns commensurate with risk.

On the basis of Group-wide basic policies for risk management, our Group companies follow the fundamental principles established by us to assess and manage credit risk. Each of our Group companies manages credit risk according to the nature of its business, and assesses and manages the credit risks of individual loans and credit portfolios quantitatively, using consistent standards.

At the Bank, our significant banking subsidiary, the Credit & Investment Planning Department within the Risk Management Unit is responsible for the comprehensive management of credit risk. This department drafts and administers credit policies, the internal rating system, credit authority guidelines, and credit application guidelines, and manages NPLs, including impaired loans, and other aspects of credit portfolio management. The department also cooperates with the Corporate Risk Management Department in quantifying credit risk (risk capital and risk-weighted assets) and controls the Bank's entire credit risk. Further, the Credit Portfolio Management Department within the Credit & Investment Planning Department strives to stabilize the credit portfolio and manage the risk through credit derivatives, loan asset sales and other instruments.

The credit departments within each business unit conduct credit risk management for loans handled by their units and manage their units' portfolios. The credit limits they use are based on the baseline amounts that the Credit & Investment Planning Department establishes for each grading category, with particular attention paid to evaluating and managing customers or loans perceived to have particularly high credit risk. The Corporate Research Department engages in research on industries and analyzes the business and financial conditions of borrower enterprises to detect early signs of problems or growth potential.

The Credit Administration Department is responsible for handling NPLs of borrowers classified as potentially bankrupt or lower, and formulates plans for workouts, including write-offs, and corporate rehabilitation. The department closely liaises with SMBC Servicer Co., Ltd., our Group company, which engages in related services to efficiently reduce the amount of NPLs, including through the sale of loans.

The Internal Audit Unit, operating independently of the business units, audits asset quality, accuracy of grading and state of credit risk management, and reports the results directly to the board of directors and the Management Committee.

The Bank has established the Credit Risk Committee to undertake control of credit risk and to ensure the overall soundness of the loan operations.

### ***Credit Risk Management Methods***

To effectively manage the risk involved in individual loans as well as its credit portfolio as a whole, the Bank first acknowledges that every loan entails credit risk, assesses the credit risk posed by each borrower and loan using an internal rating system, and quantifies that risk for control purposes.

#### ***Credit Risk Evaluation***

The Credit & Investment Planning Department manages an internal rating system for each asset control category set according to portfolio characteristics. For example, credits to commercial and industrial ("C&I")

companies, individuals for business purposes (domestic only), sovereigns, public sector entities, and financial institutions are assigned an “obligor grade,” which indicates the borrower’s creditworthiness, and/or “facility grade,” which indicates the collectability of assets taking into account the transaction conditions such as guarantee/collateral, and tenor. The business units determine an obligor grade by first assigning a financial grade using a financial strength grading model and data obtained from the obligor’s financial statements, including net worth and cash flows. The financial grade is then adjusted taking into account the actual state of the obligor’s financial position and qualitative factors to derive the obligor grade. The qualitative factors mainly include the expected future cash flows taking into account factors such as historical loss information, the appropriateness of the borrower’s business plan or operational improvement plan, the status of progress of its plan, and the overall support from financial institutions. In the event that the borrower is domiciled overseas, internal ratings for credit are made after taking into consideration the country rank, which represents an assessment of the credit quality of each country based on its political and economic situation, as well as its current account balance and external debt. Obligor grades and facility grades are reviewed once a year and as otherwise necessary, such as when there are changes in the credit situation. Our subsidiaries carry out credit risk evaluations in line with the Bank.

There are also grading systems for loans to individuals such as housing loans and structured finance including project finance, where the repayment source is limited to the cash flows generated by a particular business or asset. For example, the obligor grade of housing loans is determined taking into account various relevant factors such as proportion of the repayment to revenue, proportion of down payment to the value and past due information.

The Credit & Investment Planning Department centrally manages the internal rating systems, and designs, operates, supervises and validates the grading models. It validates the grading models (including statistical validation) of main assets following the procedure manual once a year to ensure their effectiveness and suitability.

#### *Quantification of Credit Risk*

Credit risk quantification refers to the process of estimating the degree of credit risk of a portfolio or individual loan taking into account not just the obligor’s PD, but also the concentration of risk in a specific customer or industry and the loss impact of fluctuations in the value of collateral, such as real estate and securities.

Specifically, the PD by grade, loss given default (“LGD”), credit quality correlation among obligors, and other parameter values are estimated using the historical data of obligors and facilities stored in a database to calculate the credit risk. Then, based on these parameters, the Bank runs a simulation of simultaneous default using the Monte Carlo Simulation to calculate the Bank’s maximum loss exposure to the estimated amount of the maximum losses that may be incurred. Based on these quantitative results, the Bank allocates risk capital.

Risk quantification is also executed for purposes such as to determine the portfolio’s risk concentration or to simulate economic movements (stress tests), and the results are used for making optimal decisions across the whole range of business operations, including formulating business plans and providing a standard against which individual credit applications are assessed.

#### *Credit Assessment*

At the Bank, the credit assessment of corporate loans involves a variety of financial analyses, including cash flows, to predict an enterprise’s capability of loan repayment and its growth prospects. These quantitative measures, when combined with qualitative analyses of industrial trends, the enterprise’s research and development capabilities, the competitiveness of its products or services, and its management caliber, result in a comprehensive credit assessment. The loan application is analyzed in terms of the intended utilization of the funds and the repayment schedule. In the assessment of housing loans for individuals, the Bank employs a credit



assessment model based on credit data amassed and analyzed by the Bank over many years, taking into account various relevant factors including proportion of the repayment to revenue, proportion of down payment to the value and past due information.

### ***Credit Monitoring***

At the Bank, in addition to analyzing loans at the application stage, the Credit Monitoring System is utilized to reassess obligor grades, and review credit policies for each obligor so that problems can be detected at an early stage, and quick and effective action can be taken. The system includes annual monitoring that is carried out each time the financial results of the obligor enterprise are obtained, as well as ad-hoc monitoring that is performed each time credit conditions change.

### ***Credit Portfolio Management***

#### *Risk-Taking Within the Scope of Capital*

To keep the credit risk exposure to a permissible level relative to capital, the Bank's Corporate Risk Management Department sets a credit risk capital limit for internal control purposes. Under this limit, sub-limits are set for each business unit. The Corporate Risk Management Department conducts monthly monitoring to make sure that these limits are being followed.

#### *Controlling Concentration Risk*

Once the credit concentration risk is realized, the equity capital of the Bank may be materially impaired. The Bank's Credit & Investment Planning Department therefore takes measures to manage concentration risks, such as introducing large exposure limits and conducting intensive loan reviews for obligors with large exposures, with an increased focus on industrial sectors with an excessive concentration of credit risk. Further, to manage country risk, the Credit Management Department of the International Banking Unit has credit limit guidelines based on each country's creditworthiness.

#### *Toward Active Portfolio Management*

The Bank's Credit Portfolio Management Department makes use of credit derivatives, loan asset sales, and other instruments to proactively and flexibly manage its portfolio to stabilize credit risk.

## **Market Risk and Liquidity Risk**

Market risk is the possibility that fluctuations in interest rates, foreign exchange rates, stock prices or other market prices will change the market value of financial products, leading to a loss. The purpose of market risk management is to keep the market risk exposure to a permissible level relative to capital.

Liquidity risk is defined as the uncertainty around our ability to meet our debt obligations without incurring unacceptably large losses. An example of such risk is the possible inability to meet our current and future cash flow/collateral needs, both expected and unexpected. In such cases, we may be required to raise funds at less than favorable rates or be unable to raise sufficient funds for settlement. The purpose of liquidity risk management is to ensure that we are in a position to address its liquidity obligations through monitoring the liquidity gap between assets and liabilities, and maintaining highly liquid supplementary funding resources.

On the basis of the Group-wide basic policies for risk management, we have a quantitative management process to control market and liquidity risks on a Group-wide basis by setting allowable risk limits by company. We at least annually review and identify which companies primarily carry the market and liquidity risks within the Group. We set permissible levels and upper limits of risk for each identified company in consideration of

those companies' business plans. We ensure that each identified company establishes a risk management system that is appropriate to the risks it faces, and has built-in transparent risk management processes, clearly separating front office, middle office and back office operations, and establishing a control system of mutual checks and balances.

### ***Framework for Market and Liquidity Risk Management***

The board of directors authorizes important matters relating to the management of market and liquidity risks, such as the basic policies and risk limits, which are decided by the Management Committee.

Additionally, at the Bank, the Corporate Risk Management Department manages market and liquidity risks in an integrated manner. The Corporate Risk Management Department is the planning department of the Risk Management Unit, which is independent of the business units that directly handle market transactions, and not only monitors the current risk situations but also reports regularly to the Management Committee and the board of directors. Furthermore, the Bank's Asset Liability Management ("ALM") Committee meets on a monthly basis to examine reports on the state of observance of the Bank's limits on market and liquidity risks and to review and discuss the Bank's ALM operations.

To prevent unforeseen processing errors as well as fraudulent transactions, it is important to establish a system of checks on the business units (front office). At the Bank, both the processing departments (back office) and the administrative departments (middle office) conduct the checks. In addition, the Internal Audit Unit of the Bank periodically performs internal audits to verify that the risk management framework is functioning properly.

### ***Market Risk Management Methods***

#### ***Market Risk Management Process***

We manage market risk from trading activities and non-trading activities, including strategic equity investment and other transactions within the risk capital limit, which is determined taking into account our shareholders' equity and other principal indicators of our financial position. We also establish an upper limit on VaR and losses within the risk capital limits.

Our market risk can be divided into various factors: interest rates, foreign exchange rates, equity prices and option risks. We manage each of these risks employing the VaR method as well as supplemental indicators suitable for managing each risk, such as the basis point value ("BPV").

VaR is the largest predicted loss that is possible given a fixed confidence interval. For example, our VaR indicates the largest loss that is possible for a holding period of one day and a confidence interval of 99.0%. BPV is the amount of change in assessed value as a result of a one-basis-point (0.01%) movement in interest rates.

#### ***Market Risk Measurement Techniques—Value at Risk***

The principal Group companies' internal VaR model makes use of historical data to prepare scenarios for market fluctuations and, by conducting simulations of gains and losses on a net position basis, the model estimates the maximum losses that may occur. The VaR calculation method we employ for both trading and non-trading activities is based mainly on the following:

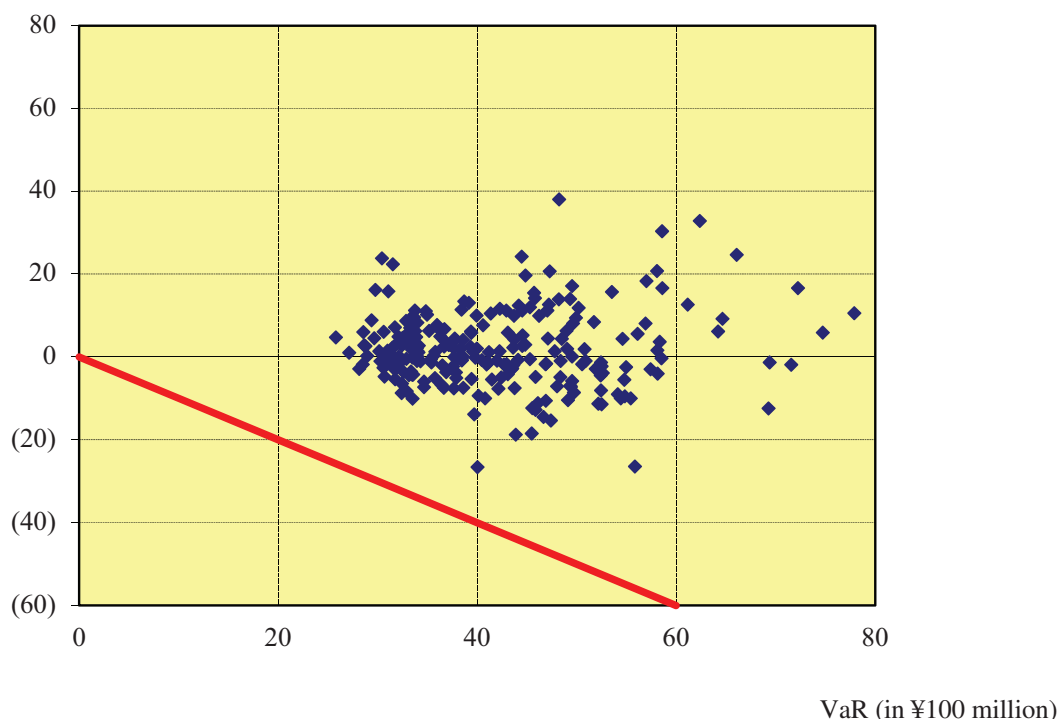
- the historical simulation method;
- a one-sided confidence interval of 99.0%;
- a one-day holding period (a one-year holding period for the strategic equity investment portfolio); and
- an observation period of four years (ten years for the strategic equity investment portfolio).

This method is reviewed periodically and refined, if necessary.

The relationship between the VaR calculated with the model and the actual profit and loss data is back-tested periodically. The back-testing results for the Group's trading accounts during the fiscal year ended March 31, 2017 are shown below. A data point below the diagonal line indicates a loss in excess of the predicted VaR for that day; however, there were no significant excess losses as with the previous year. This demonstrates that the Group's VaR model, with a one-sided confidence interval of 99.0%, is sufficiently reliable.

*Back-Testing Results (Trading Book—SMFG consolidated)*

Marginal Profit or Loss (in ¥100 million)



*Trading Activities*

Most of our trading activity is undertaken to accommodate the needs of commercial banking customers for interest rate and foreign exchange transactions. However, some interest rate and foreign exchange rate positions are taken using derivatives and other on-balance sheet instruments with the objective of earning a profit from favorable movements in market rates. The overall objective of managing market risk is to avoid unexpected losses due to changes in market prices.

*Non-trading Activities*

The market risk for non-trading activity arises principally from the interest rate risk of our ALM operations, or banking, including loans, debt investment securities, deposits, and long- and short-term borrowings, and from the equity risk of our strategic investments. ALM operations are regularly reviewed and discussed by the ALM Committee so as not to be heavily exposed to market fluctuations. Strategic equity investment is a portfolio that consists principally of publicly traded Japanese equities. This portfolio, like that of other financial institutions in Japan, has historically included shares of our customers.

*VaR Summary for the Fiscal Years Ended March 31, 2017 and 2016*

The following tables show our VaR by risk category and these figures are prepared based on the internal reporting provided to management.

Our material market risk exposure categories consist of interest rate risk, foreign exchange risk, equities and commodities risk and others. The section headed “VaR for Trading Activity” shows our VaR for instruments entered into for trading purposes and the VaR model for the trading book includes principal consolidated subsidiaries. The section headed “VaR for Non-Trading Activity” shows our VaR for instruments entered into for purposes other than trading purposes. “Strategic Equity Investment” in the “VaR for Non-Trading Activity” section is a portfolio that consists principally of publicly traded Japanese equities. This portfolio, like that of other financial institutions in Japan, has historically included shares of our customers.

*VaR for Trading Activity*

	<u>Interest rate risk</u>	<u>Foreign exchange risk</u>	<u>Equities and commodities risk</u>	<u>Others</u>	<u>Total<sup>(1)</sup></u>
	(In billions)				
<b>For the fiscal year ended March 31, 2017:</b>					
SMBC Consolidated					
Maximum .....	¥ 19.2	¥ 3.1	¥ 5.3	¥ 2.5	¥ 22.6
Minimum .....	1.5	1.0	0.3	1.2	3.9
Daily average .....	8.1	1.7	1.8	1.7	11.8
At March 31, 2017 .....	1.9	1.2	0.4	1.7	3.9
SMFG Consolidated					
Maximum .....	¥ 27.9	¥ 3.9	¥ 5.8	¥ 2.5	¥ 34.0
Minimum .....	10.3	1.2	1.1	1.2	13.1
Daily average .....	16.1	1.9	3.1	1.7	21.4
At March 31, 2017 .....	16.7	1.6	4.2	1.7	23.6
	<u>Interest rate risk</u>	<u>Foreign exchange risk</u>	<u>Equities and commodities risk</u>	<u>Others</u>	<u>Total<sup>(1)</sup></u>
	(In billions)				
<b>For the fiscal year ended March 31, 2016:</b>					
SMBC Consolidated					
Maximum .....	¥ 15.8	¥ 3.7	¥ 5.9	¥ 1.7	¥ 21.4
Minimum .....	6.3	0.3	0.5	0.8	8.6
Daily average .....	10.0	1.4	1.8	1.2	13.3
At March 31, 2016 .....	7.6	1.1	1.1	1.3	10.4
SMFG Consolidated					
Maximum .....	¥ 16.5	¥ 3.7	¥ 6.2	¥ 1.7	¥ 22.5
Minimum .....	7.0	0.3	0.7	0.8	9.6
Daily average .....	10.6	1.4	2.0	1.2	14.2
At March 31, 2016 .....	8.1	1.1	1.2	1.3	11.0

(1) Total for “Maximum,” “Minimum,” and “Daily average” represent the maximum, minimum and daily average of the total of the trading book. For certain subsidiaries, we employ the standardized method and/or the historical simulation method for the VaR calculation method.

VaR for Non-trading Activity

- Banking

	<u>Interest rate risk</u>	<u>Foreign exchange risk</u>	<u>Equities and commodities risk</u>	<u>Others</u>	<u>Total<sup>(1)</sup></u>
	(In billions)				
<b>For the fiscal year ended March 31, 2017:</b>					
SMBC Consolidated					
Maximum .....	¥ 34.2	¥ 0.0	¥ 38.9	¥ 0.0	¥ 49.9
Minimum .....	23.2	0.0	24.7	0.0	37.8
Daily average .....	27.0	0.0	32.1	0.0	43.0
At March 31, 2017 .....	27.4	0.0	34.2	0.0	44.1
SMFG Consolidated					
Maximum .....	¥ 37.3	¥ 0.0	¥ 38.9	¥ 0.0	¥ 53.2
Minimum .....	26.4	0.0	24.8	0.0	40.2
Daily average .....	30.0	0.0	32.2	0.0	46.1
At March 31, 2017 .....	30.6	0.0	34.3	0.0	47.4
	<u>Interest rate risk</u>	<u>Foreign exchange risk</u>	<u>Equities and commodities risk</u>	<u>Others</u>	<u>Total<sup>(1)</sup></u>
	(In billions)				
<b>For the fiscal year ended March 31, 2016:</b>					
SMBC Consolidated					
Maximum .....	¥ 26.2	¥ 0.0	¥ 34.5	¥ 0.0	¥ 48.0
Minimum .....	13.8	0.0	17.4	0.0	23.1
Daily average .....	20.0	0.0	28.7	0.0	37.8
At March 31, 2016 .....	18.3	0.0	27.4	0.0	33.6
SMFG Consolidated					
Maximum .....	¥ 26.9	¥ 0.0	¥ 34.6	¥ 0.0	¥ 48.9
Minimum .....	14.1	0.0	17.5	0.0	23.5
Daily average .....	20.8	0.0	28.7	0.0	38.7
At March 31, 2016 .....	18.7	0.0	27.5	0.0	34.0

(1) Total for "Maximum," "Minimum," and "Daily average" represent the maximum, minimum and daily average of the total of the banking book.

- *Strategic Equity Investment*

	<u>Equities risk</u> (In billions)
<b>For the fiscal year ended March 31, 2017:</b>	
SMBC Consolidated	
Maximum .....	¥ 1,421.0
Minimum .....	1,146.2
Daily average .....	1,303.7
At March 31, 2017 .....	1,361.8
SMFG Consolidated	
Maximum .....	¥ 1,603.9
Minimum .....	1,272.8
Daily average .....	1,460.5
At March 31, 2017 .....	1,544.5
	<u>Equities risk</u> (In billions)
<b>For the fiscal year ended March 31, 2016:</b>	
SMBC Consolidated	
Maximum .....	¥ 1,529.5
Minimum .....	1,132.5
Daily average .....	1,397.7
At March 31, 2016 .....	1,247.0
SMFG Consolidated	
Maximum .....	¥ 1,677.1
Minimum .....	1,259.2
Daily average .....	1,542.1
At March 31, 2016 .....	1,387.6

### ***Stress Tests***

The market occasionally undergoes extreme fluctuations that exceed projections. Therefore, to manage market risk, it is important to run simulations of situations that may occur only once in many years, or so-called stress tests. To prepare for unexpected market swings, the Bank performs stress tests on a monthly basis based on various scenarios.

The limitations of the VaR methodology include the following:

- The use of historical data as a proxy for estimating future events may underestimate the probability of extreme market movements. Past market movement is not necessarily a good indicator of future events;
- The use of a holding period assumes that all positions can be liquidated or hedged in that period of time. This assumption does not fully capture the market risk arising during periods of illiquidity, when liquidation or hedging in that period of time may not be possible;
- The use of a confidence level neither takes account of, nor makes any statement about, any losses that might occur beyond this level of confidence; and
- VaR does not capture all of the complex effects of the risk factors on the value of positions and portfolios and could underestimate potential losses.

## *Additional Information for Certain Risks*

### *Interest Rate Risk*

To supplement the above limitations of VaR methodologies, the Group adopts various indices to measure and monitor the sensitivity of interest rates, including delta, gamma and vega risks. The Group considers BPV as one of the most significant indices to manage interest rate risk. BPV is the amount of change in the value to the banking and trading book as a result of a one-basis-point (0.01%) movement in interest rates. The principal Group companies use BPV to monitor interest rate risk, not only on a net basis, but also by term to prevent the concentration of interest rate risk in a specific period. The table “Outlier Ratio” presented below is one of the sensitivity analyses for interest rate risk concerning the banking book using the BPV approach. In addition, as previously addressed, the Group enhances the risk management methods of VaR and BPV by using them in combination with back-testing and stress tests.

Interest rate risk substantially changes depending on the method used for recognizing the expected maturity dates of demand deposits that can be withdrawn at any time or the method used for estimating the timing of cancellation prior to maturity of time deposits and consumer housing loans. At the Bank, the maturity of demand deposits that are expected to be left with the Bank for a prolonged period is regarded to be at the longest five years (2.5 years on average), and the cancellation prior to maturity of time deposits and consumer housing loans is estimated based on historical data.

### *Outlier Ratio*

In the event the economic value of a bank declines by more than 20% of total capital as a result of interest rate shocks, that bank would fall into the category of “outlier bank,” as stipulated under Pillar 2 of the Basel Capital Accord. This ratio, known as the outlier ratio, was 1.9% for the Bank on a consolidated basis at March 31, 2017, substantially below the 20% criterion. The decline in economic value based on the outlier framework of the Bank on a consolidated basis is shown in the following table.

	<u>At March 31,</u>	
	<u>2017</u>	<u>2016</u>
	(In billions, except percentages)	
SMBC Consolidated		
Total	¥ 192.3	¥ 208.2
Impact of yen interest rates	79.2	41.2
Impact of U.S. dollar interest rates	85.4	109.8
Impact of euro interest rates	14.0	40.1
Percentage of total capital	1.9%	2.0%

Note: Decline in economic value is the decline of the present value of a banking portfolio after interest rate shocks (1st and 99th percentile of observed interest rate changes using a one-year holding period and an observation period of five years).

### *Foreign Exchange Risk*

The principal Group companies set risk limits for each currency to manage the concentration of the foreign currency position. The foreign exchange risk is immaterial as shown above in VaR by risk category.

### *Strategic Equity Investment Risk*

We establish limits on allowable risk for strategic equity investments, and monitor the observance of those limits to keep stock price fluctuation risk within acceptable parameters. We have been reducing our strategic equity investments, and the balance is within a permitted level, which is less than 100% of our consolidated Tier 1 Capital. See “Item 4.B. Business Overview—Regulations in Japan—Regulations for Stabilizing the Financial System—Restriction on Aggregate Shareholdings by a Bank.”

### ***Liquidity Risk Management Methods***

We and the Bank regard liquidity risk as one of the major risks and we identify our Group companies which have significant liquidity risk. Each of our identified Group companies, including the Bank, establishes a fundamental risk management framework. For example, the Bank manages liquidity risk based on a framework consisting of setting upper limits for “funding gaps,” maintaining highly liquid supplementary funding sources and establishing contingency plans.

A funding gap is defined as a maturity mismatch between a source of funds and the use of funds. The Bank actively manages this funding gap by setting limits on the size of gaps over a given time horizon and limiting reliance on short-term funding. These limits are established on both a Bank-wide basis and individual branch basis, taking into account cash management planning, systemic factors and funding status, among other factors. Additionally, funding gap limits are set for individual currencies if necessary. The Bank actively monitors funding gaps on a daily basis. Further, stress tests are regularly carried out by simulating the impact triggered, for example, by the outflow of deposits or having difficulties in funding from money markets, in order to thoroughly comprehend the amount required to fund when the liquidity risk is realized. Additionally, funding liquidity is maintained by holding assets, such as U.S. government bonds, which can be immediately converted to cash, or establishing borrowing facilities to be used as supplementary funding sources in an emergency, in order to smoothly raise the required funds even during market disruption.

Furthermore, contingency plans are developed to respond to the liquidity risk when being realized, by creating detailed action plans such as lowering the upper limit for the funding gap, depending on the existing situation (i.e. normal, concerned, or critical) and the respective circumstances.

### **Operational Risk, Processing Risk and System Risk**

Operational risk is the possibility of losses arising from inadequate or failed internal processes, people and systems or from external events. We have prepared operational risk management regulations to define the basic rules to be observed across our Group. Under these regulations, we are working to raise the level of sophistication of our management of operational risk across the Group by providing an effective framework for the identification, assessment, control and monitoring of significant risk factors and by establishing a system for executing contingency and business continuity plans.

Processing risk is the possibility of losses arising from negligent processing by employees, accidents, or unauthorized activities. We recognize that all operations entail processing risk. We are, therefore, working to raise the level of sophistication of our management of processing risk across the whole Group by ensuring that each branch conducts its own regular investigations of processing risk; minimizing losses in the event of processing errors or negligence by drafting exhaustive contingency plans; and carrying out thorough quantification of the risk under management.

System risk is the possibility of a loss arising from the failure, malfunction or unauthorized use of computer systems. We recognize that reliable computer systems are essential for the effective implementation of management strategy. We strive to minimize system risk by adopting and implementing risk management regulations and specific management standards, including a security policy. We also have contingency plans with the goal of minimizing losses in the event of a system failure. To prevent computer system breakdowns, we have also implemented numerous measures, including the duplication of various systems and infrastructures, maintaining the Bank’s computer system to facilitate steady, uninterrupted operation, and establishing a disaster-prevention system consisting of computer centers in eastern and western Japan.

### **Other Risk**

Settlement risk is the possibility of a loss arising from a transaction that cannot be settled as planned. As this risk crosses over numerous categories of risk, including credit, liquidity, processing and system risks, it is required to appropriately manage according to characteristics of such risks.



**Item 12. Description of Securities other than Equity Securities**

**12.A. DEBT SECURITIES**

Not applicable.

**12.B. WARRANTS AND RIGHTS**

Not applicable.

**12.C. OTHER SECURITIES**

Not applicable.

**12.D. AMERICAN DEPOSITARY SHARES**

Under the terms of the deposit agreement, an ADS holder may have to pay the following service fees to the depositary:

Service	Fees
Issuance of ADSs	Up to U.S. 5¢ per ADS issued
Cancellation of ADSs	Up to U.S. 5¢ per ADS canceled
Distribution of cash dividends or other cash distributions	Up to U.S. 5¢ per ADS held
Distribution of ADSs pursuant to stock dividends, free stock distributions or exercises of rights	Up to U.S. 5¢ per ADS held
Distribution of securities other than ADSs or rights to purchase additional ADSs	Up to U.S. 5¢ per ADS held
Depositary services	Up to U.S. 5¢ per ADS held on the applicable record date(s) established by the depositary

An ADS holder will also be responsible for paying certain fees and expenses incurred by the depositary and certain taxes and governmental charges such as:

- taxes (including applicable interest and penalties) and other governmental charges;
- the registration fees applicable to transfers of shares or other deposited securities to or from the name of the custodian, the depositary or any nominees upon the making of deposits or withdrawals, respectively;
- the cable, telex and facsimile transmission and delivery expenses expressly provided in the deposit agreement to be at the expense of the person depositing or withdrawing shares or holders and beneficial owners of ADSs;
- the expenses and charges incurred by the depositary in the conversion of foreign currency;
- the fees and expenses incurred by the depositary in connection with compliance with exchange control regulations and other regulatory requirements applicable to shares, deposited securities, ADSs and ADRs; and
- the fees and expenses incurred by the depositary, the custodian or any nominee in connection with the servicing or delivery of deposited securities.

Depositary fees payable upon the issuance and cancellation of ADSs are typically paid to the depositary by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depositary and by the brokers (on behalf of their clients) delivering the ADSs to the depositary for cancellation. The brokers in turn charge these transaction fees to their clients.

Citibank, N.A., as depositary, has agreed to reimburse SMFG for certain expenses SMFG incurs in connection with its ADR program, subject to certain ceilings. During the fiscal year ended March 31, 2017, we received \$525,000.00 as reimbursement for such expenses.

## PART II

### Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

### Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

### Item 15. Controls and Procedures

#### Disclosure Controls and Procedures

We carried out an evaluation under the supervision and with the participation of our management, including Takeshi Kunibe, our Director President, and Jun Ohta, our Director Deputy President and Corporate Executive Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) at March 31, 2017. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable, not absolute, assurance of achieving their control objectives. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based upon the evaluation referred to above, Mr. Kunibe and Mr. Ohta concluded that the design and operation of our disclosure controls and procedures at March 31, 2017 were effective to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

#### Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Our internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management evaluated the effectiveness of our internal control over financial reporting at March 31, 2017 based on the criteria established in "Internal Control—Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the evaluation, management has concluded that we maintained effective internal control over financial reporting at March 31, 2017.

The effectiveness of our internal control over financial reporting at March 31, 2017 has been audited by KPMG AZSA, our independent registered public accounting firm, as stated in their report appearing on page F-4.

### **Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting that occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Item 16A. Audit Committee Financial Expert**

Our board of directors has determined that Mr. Shozo Yamazaki is an “audit committee financial expert” as defined in Item 16A of Form 20-F and is “independent” as defined in the listing standards of the NYSE.

### **Item 16B. Code of Ethics**

We have adopted a code of ethics, which is comprised of internal rules included in our business ethics and compliance manual, each of which applies to all our directors, officers and other employees.

Our business ethics are commonly applicable principles of Corporate Social Responsibility (“CSR”) in which observance of the compliance system is regarded as very important. Our compliance manual sets forth the necessity of adherence to our management philosophy and code of conduct by our directors, officers and other employees, and the roles and responsibilities of our employees, compliance officers, Compliance Division and others in the event of a breach of the compliance rules.

This manual was created to identify, and to promote compliance by our directors, officers and other employees with relevant laws and regulations in conjunction with our management philosophy and code of conduct and compliance rules. This manual also sets forth the procedures regarding the handling of conflicts of interest for our directors and the promotion of conduct that meets our management philosophy and code of conduct and compliance rules for employees. For a detailed discussion of our management philosophy and code of conduct, see “Item 4.B. Business Overview—Management Philosophy.”

A copy of the sections of our business ethics and compliance manual equivalent to the “code of ethics” (as defined in paragraph (b) of Item 16B of Form 20-F) is attached as Exhibit 11 to this annual report.

There were no material changes to the code of ethics during the fiscal year ended March 31, 2017. No waivers of the business ethics and compliance manual have been granted to any of our directors, officers or other employees, during the fiscal year ended March 31, 2017.

## Item 16C. Principal Accountant Fees and Services

### *Fees for Services Provided by KPMG AZSA and its Affiliates*

The aggregate fees billed by KPMG AZSA, our independent registered public accounting firm, and its affiliates, for the fiscal years ended March 31, 2017 and 2016 are presented in the following table:

	For the fiscal year ended March 31,	
	2017	2016
	(In millions)	
Audit fees <sup>(1)</sup> . . . . .	¥ 4,764	¥ 4,496
Audit-related fees <sup>(2)</sup> . . . . .	206	234
Tax fees <sup>(3)</sup> . . . . .	148	208
All other fees <sup>(4)</sup> . . . . .	58	4
Total . . . . .	¥ 5,176	¥ 4,942

- (1) Audit fees primarily include fees for the audit of our and our subsidiaries' annual financial statements and fees for the services that are normally provided in connection with our statutory and regulatory filings.
- (2) Audit-related fees primarily include fees for attestation and related services that are not reported under audit fees.
- (3) Tax fees primarily include fees for tax compliance, assistance with preparation of tax return filings and tax advisory services.
- (4) All other fees primarily include fees for advisory services in relation to the examination for accounting policies in our branches.

### *Pre-Approval Policies and Procedures*

We transitioned to a company with three statutory committees: a nominating committee, an audit committee and a compensation committee from a board of corporate auditors governance system, following approval at our ordinary general meeting of shareholders held on June 29, 2017.

Prior to such transition, our board of corporate auditors pre-approved all engagements with KPMG AZSA and its affiliates, pursuant to Rule 2-01(c)(7) of Regulation S-X. Under the policies and procedures established by our board of corporate auditors, SMFG and its subsidiaries had to apply to our board of corporate auditors for pre-approval on either a periodic basis twice a year for services expected to be performed in the coming months or case-by-case basis before entering into the engagement with KPMG AZSA and its affiliates to perform audit and permitted non-audit services.

Pre-approval was granted by our board of corporate auditors prior to entering into the engagement. Additionally, if necessary, full-time corporate auditors considered any case-by-case application for pre-approval on behalf of our board of corporate auditors prior to the next scheduled board meeting. Such pre-approvals made by full-time corporate auditors were reported to our board of corporate auditors at the next scheduled board meeting.

Fees approved pursuant to the procedures described in paragraph 2-01(c)(7)(i)(C) of Regulation S-X, which provides for an exception to the general requirement for pre-approval in certain circumstances, were none for the fiscal years ended March 31, 2017 and 2016.

Following our transition to a company with three statutory committees, pre-approval is granted by our audit committee. Members of our audit committee may consider any application for pre-approval on a case-by-case basis on behalf of our audit committee prior to the next audit committee meeting scheduled after June 29, 2017. We will disclose our pre-approval policies and procedures in accordance with the new governance system following approval at our ordinary general meeting of shareholders held on June 29, 2017.

#### Item 16D. Exemptions from the Listing Standards for the Audit Committee

Not applicable.

We had previously employed a board of corporate auditors governance system. In order to further enhance our solid corporate governance system, we transitioned to a company with three statutory committees: a nominating committee, an audit committee and a compensation committee, following approval at our ordinary general meeting of shareholders held on June 29, 2017. For further information, see “Item 6.C. Board Practices.”

#### Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table sets forth purchases of our common stock by us and our affiliated purchasers during the fiscal year ended March 31, 2017:

	Total number of shares purchased <sup>(1)</sup>	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
April 1 to April 30, 2016 . . . . .	1,229	¥ 3,330	—	—
May 1 to May 31, 2016 . . . . .	868	3,378	—	—
June 1 to June 30, 2016 . . . . .	839	3,299	—	—
July 1 to July 31, 2016 . . . . .	1,351	3,084	—	—
August 1 to August 31, 2016 . . . . .	1,990	3,322	—	—
September 1 to September 30, 2016 . . . . .	2,420	3,530	—	—
October 1 to October 31, 2016 . . . . .	1,538	3,431	—	—
November 1 to November 30, 2016 . . . . .	1,396	3,814	—	—
December 1 to December 31, 2016 . . . . .	4,515	4,593	—	—
January 1 to January 31, 2017 . . . . .	3,769	4,522	—	—
February 1 to February 28, 2017 . . . . .	2,976	4,521	—	—
March 1 to March 31, 2017 . . . . .	2,102	4,333	—	—
Total . . . . .	24,993	¥ 4,003	—	—

(1) A total of 24,993 shares were purchased other than through a publicly announced plan or program during the fiscal year ended March 31, 2017, due to our purchases of shares constituting less than one unit from registered holders of such shares at the current market prices of those shares.

#### Item 16F. Change in Registrant’s Certifying Accountant

None.

#### Item 16G. Corporate Governance

Companies listed on the NYSE must comply with certain corporate governance standards provided under Section 303A of the NYSE Listed Company Manual. However, NYSE-listed companies that are foreign private issuers, including us, are permitted to follow home country practices in lieu of certain provisions of Section 303A if such foreign private issuers meet certain criteria. We rely on the exemption for home country practices concerning the listing of our ADSs on the NYSE.

Under the Companies Act, we are required to have a corporate governance system with (i) a board of corporate auditors, (ii) an audit and supervisory committee, or (iii) three statutory committees: a nominating committee, an audit committee and a compensation committee. We had previously employed a board of corporate auditors governance system. On June 29, 2017, we transitioned to a company with three statutory committees, following approval at our ordinary general meeting of shareholders.

Foreign private issuers listed on the NYSE are required to provide to their U.S. investors a brief, general summary of the significant differences of corporate governance practices that differ from U.S. companies under NYSE listing standards. The following is a summary of the significant ways in which our corporate governance practices differ from NYSE standards followed by U.S. companies:

- U.S. companies listed on the NYSE are required to have a majority of directors that meet the independence requirements under Section 303A of the NYSE's Listed Company Manual. Under the Companies Act, we are required to have three statutory committees consisting of members of our board of directors, of which the majority must be outside directors. Currently, seven of our seventeen directors are outside directors who meet the independence requirements under the Companies Act.
- U.S. companies listed on the NYSE are required to have an audit committee composed entirely of independent directors. Under the Companies Act, we are required to have an audit committee that consists of three or more members of our board of directors, of which the majority must be outside directors. Currently, three of the five members of our audit committee are outside directors that meet the independence requirements under the Companies Act. Our audit committee satisfies the requirements of Rule 10A-3 under the Exchange Act, including the independence requirements thereunder.
- A NYSE-listed U.S. company is required to have a nominating/corporate governance committee and a compensation committee, all of which must be composed entirely of independent directors. The members of the compensation committee must satisfy additional requirements set forth in Section 303A.02(a)(ii) of the NYSE Listed Company Manual. A compensation committee must also have the authority to, in its sole discretion, retain or obtain the advice of a compensation consultant, independent legal counsel or other adviser. This authority is subject to the committee's consideration of certain criteria set forth in Section 303A.05(c) of the NYSE Listed Company Manual regarding the independence of the adviser. Under the Companies Act, we are required to establish a nominating committee and a compensation committee, each of which consisting of at least three directors and of which the majority of the members must be outside directors. Currently, five of the six members of our nominating committee and four of the six members of compensation committee are outside directors who meet the independence requirements under the Companies Act.
- A NYSE-listed U.S. company must hold regularly scheduled executive sessions where participants are limited to non-management directors. Under the Companies Act, Japanese corporations are not obliged to hold executive sessions where participants are limited to non-management directors.
- A NYSE-listed U.S. company must adopt a code of business conduct and ethics and must post the code on its website. While we are not required to adopt such code under Japanese law or the rules of stock exchanges in Japan on which we are listed, we maintain our code of conduct as our standard for corporate conduct to be observed by our directors, officers and employees.
- A NYSE-listed U.S. company must adopt corporate governance guidelines and must post the guidelines on its website. While we are not required to adopt such guidelines under Japanese law, the rules of the stock exchanges in Japan on which we are listed, including the Tokyo Stock Exchange, require listed companies, including us, to comply with the principles of the Corporate Governance Code established by those stock exchanges and, in cases of noncompliance with some or all of the principles, to disclose the reasons for such noncompliance. We established the SMFG Corporate Governance Guideline, in consideration of the Corporate Governance Code, to present our basic views and guidelines on corporate governance and improve our corporate governance system. Our Corporate Governance Guideline is available on our website at <http://www.smfg.co.jp>.

#### **Item 16H. Mine Safety Disclosure**

Not applicable.

## PART III

### Item 17. Financial Statements

We have responded to Item 18 in lieu of this item.

### Item 18. Financial Statements

The information required by this item is set forth in our consolidated financial statements starting on page F-1 of this annual report.

### Item 19. Exhibits

We have filed the following documents as exhibits to this document:

- Exhibit 1.1 Articles of Incorporation of Sumitomo Mitsui Financial Group, Inc., as amended on June 29, 2017
- Exhibit 1.2 Regulations of the Board of Directors of Sumitomo Mitsui Financial Group, Inc., as amended on June 29, 2017
- Exhibit 1.3 Share Handling Regulations of Sumitomo Mitsui Financial Group, Inc., as amended on June 29, 2017
- Exhibit 2.1 Form of Deposit Agreement among the registrant, Citibank, N.A., as Depositary, and all owners and holders from time to time of American Depositary Shares issued thereunder, incorporated by reference from our registration statement on Form 20-F (Commission file number 001-34919) filed on October 20, 2010
- Exhibit 8 List of subsidiaries of Sumitomo Mitsui Financial Group, Inc., at March 31, 2017
- Exhibit 11 Code of Ethics of Sumitomo Mitsui Financial Group, Inc., incorporated by reference from our annual report on Form 20-F (File No. 001-34919) filed on July 29, 2011
- Exhibit 12.1 CEO Certification Required by Rule 13a-14(a) (17 CFR 240.13a-14(a))
- Exhibit 12.2 CFO Certification Required by Rule 13a-14(a) (17 CFR 240.13a-14(a))
- Exhibit 13.1 Certification Required by Rule 13a-14(b) (17 CFR 240.13a-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350)
- Exhibit 13.2 Certification Required by Rule 13a-14(b) (17 CFR 240.13a-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350)
- Exhibit 15.1 Consent of Independent Registered Public Accounting Firm

We have not included as exhibits certain instruments with respect to our long-term debt. The total amount of our long-term debt securities or that of our subsidiaries, authorized under any instrument does not exceed 10% of our total assets. We hereby agree to furnish to the SEC, upon its request, a copy of any instrument defining the rights of holders of our long-term debt or that of our subsidiaries for which consolidated or unconsolidated financial statements are required to be filed.



## SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Sumitomo Mitsui Financial Group, Inc.

By: /s/ Takeshi Kunibe

Name: Takeshi Kunibe

Title: President and Group Chief Executive Officer

Date: June 29, 2017

## SELECTED STATISTICAL DATA

### I. Distribution of Assets, Liabilities and Equity; Interest Rates and Interest Differential

#### *Average Statements of Financial Positions, Interest and Average Rates*

The following tables show the average balances of our statement of financial positions items and related interest and average interest rates for the fiscal years ended March 31, 2017, 2016 and 2015. Average balances are generally based on a daily average. Weekly, month-end or quarter-end averages are used for certain average balances where it is not practical to obtain the applicable daily averages. The average balances determined by such methods are considered to be representative of our operations. The allocation of amounts between domestic and foreign is based on the location of the office.

	For the fiscal year ended March 31,								
	2017			2016			2015		
	Average balance	Interest income	Average rate	Average balance	Interest income	Average rate	Average balance	Interest income	Average rate
	(In millions, except percentages)								
<b>Interest-earning assets:</b>									
Interest-earning deposits with other banks:									
Domestic offices	¥ 762,460	¥ 4,099	0.54%	¥ 768,976	¥ 4,771	0.62%	¥ 741,738	¥ 4,548	0.61%
Foreign offices	4,617,409	41,671	0.90%	5,786,836	35,701	0.62%	5,892,983	37,348	0.63%
Total	5,379,869	45,770	0.85%	6,555,812	40,472	0.62%	6,634,721	41,896	0.63%
Call loans and bills bought:									
Domestic offices	76,227	467	0.61%	147,992	861	0.58%	226,409	1,177	0.52%
Foreign offices	1,303,429	11,598	0.89%	967,442	20,967	2.17%	972,643	17,429	1.79%
Total	1,379,656	12,065	0.87%	1,115,434	21,828	1.96%	1,199,052	18,606	1.55%
Reverse repurchase agreements and cash collateral on securities borrowed:									
Domestic offices	7,443,668	12,151	0.16%	6,675,810	10,763	0.16%	4,766,205	7,875	0.17%
Foreign offices	1,009,997	17,450	1.73%	741,623	11,248	1.52%	726,427	9,146	1.26%
Total	8,453,665	29,601	0.35%	7,417,433	22,011	0.30%	5,492,632	17,021	0.31%
Trading assets <sup>(1)</sup> :									
Domestic offices	2,835,336	8,751	0.31%	3,500,759	21,259	0.61%	3,284,505	24,313	0.74%
Foreign offices	119,777	1,869	1.56%	85,204	1,240	1.46%	84,006	1,661	1.98%
Total	2,955,113	10,620	0.36%	3,585,963	22,499	0.63%	3,368,511	25,974	0.77%
Financial assets at fair value through profit or loss <sup>(2)</sup> :									
Domestic offices	1,582,142	—	0.00%	1,629,644	4,425	0.27%	1,672,433	(4,373)	(0.26%)
Held-to-maturity investments <sup>(3)</sup> :									
Domestic offices	1,809,777	6,756	0.37%	2,964,539	12,880	0.43%	4,086,502	20,509	0.50%
Available-for-sale financial assets <sup>(3)</sup> :									
Domestic offices	7,477,480	41,561	0.56%	10,878,176	38,701	0.36%	10,385,945	32,703	0.31%
Foreign offices	2,945,084	39,031	1.33%	2,425,249	33,331	1.37%	2,250,294	29,282	1.30%
Total	10,422,564	80,592	0.77%	13,303,425	72,032	0.54%	12,636,239	61,985	0.49%
Loans and advances <sup>(4)</sup> :									
Domestic offices	66,948,344	1,082,058	1.62%	63,177,259	1,091,538	1.73%	62,005,587	1,099,119	1.77%
Foreign offices	25,298,515	643,419	2.54%	26,272,983	611,823	2.33%	23,292,666	523,485	2.25%
Total	92,246,859	1,725,477	1.87%	89,450,242	1,703,361	1.90%	85,298,253	1,622,604	1.90%
Total interest-earning assets:									
Domestic offices	88,935,434	1,155,843	1.30%	89,743,155	1,185,198	1.32%	87,169,324	1,185,871	1.36%
Foreign offices	35,294,211	755,038	2.14%	36,279,337	714,310	1.97%	33,219,019	618,351	1.86%
Total	124,229,645	¥1,910,881	1.54%	126,022,492	¥1,899,508	1.51%	120,388,343	¥1,804,222	1.50%
<b>Non-interest-earning assets:</b>									
Cash and due from banks	37,551,682			32,203,057			24,523,995		
Other non-interest-earning assets	20,498,864			20,359,043			19,075,392		
Allowance for loan losses	(676,296)			(778,386)			(873,853)		
Total non-interest-earning assets	57,374,250			51,783,714			42,725,534		
<b>Total assets</b>	¥181,603,895			¥177,806,206			¥163,113,877		
Total assets attributable to foreign offices	23.4%			24.5%			23.6%		

For the fiscal year ended March 31,

	2017			2016			2015		
	Average balance	Interest expense	Average rate	Average balance	Interest expense	Average rate	Average balance	Interest expense	Average rate
(In millions, except percentages)									
<b>Interest-bearing liabilities:</b>									
Deposits:									
Domestic offices	¥ 82,738,015	¥ 35,881	0.04%	¥ 78,458,170	¥ 48,032	0.06%	¥ 74,397,836	¥ 49,356	0.07%
Foreign offices	23,383,002	213,147	0.91%	22,838,530	154,280	0.68%	21,263,919	116,211	0.55%
Total	106,121,017	249,028	0.23%	101,296,700	202,312	0.20%	95,661,755	165,567	0.17%
Call money and bills sold:									
Domestic offices	603,065	92	0.02%	2,199,407	1,524	0.07%	2,040,724	1,504	0.07%
Foreign offices	618,949	5,194	0.84%	663,310	4,059	0.61%	877,127	2,510	0.29%
Total	1,222,014	5,286	0.43%	2,862,717	5,583	0.20%	2,917,851	4,014	0.14%
Repurchase agreements and cash collateral on securities lent:									
Domestic offices	7,149,638	5,616	0.08%	7,172,312	8,582	0.12%	5,584,584	6,091	0.11%
Foreign offices	3,081,806	15,007	0.49%	2,009,593	6,523	0.32%	1,455,125	3,829	0.26%
Total	10,231,444	20,623	0.20%	9,181,905	15,105	0.16%	7,039,709	9,920	0.14%
Trading liabilities <sup>(1)</sup> :									
Domestic offices	2,015,061	10,839	0.54%	2,243,856	17,241	0.77%	2,197,851	19,634	0.89%
Foreign offices	52,065	616	1.18%	25,565	483	1.89%	27,840	830	2.98%
Total	2,067,126	11,455	0.55%	2,269,421	17,724	0.78%	2,225,691	20,464	0.92%
Borrowings:									
Domestic offices	8,113,368	58,772	0.72%	10,251,890	56,353	0.55%	9,170,288	54,915	0.60%
Foreign offices	847,353	21,063	2.49%	823,446	15,850	1.92%	790,516	16,122	2.04%
Total	8,960,721	79,835	0.89%	11,075,336	72,203	0.65%	9,960,804	71,037	0.71%
Debt securities in issue:									
Domestic offices	8,320,124	130,613	1.57%	7,999,705	120,285	1.50%	7,000,273	109,960	1.57%
Foreign offices	2,193,406	16,324	0.74%	3,044,714	14,887	0.49%	2,819,687	9,829	0.35%
Total	10,513,530	146,937	1.40%	11,044,419	135,172	1.22%	9,819,960	119,789	1.22%
Other interest-bearing liabilities:									
Domestic offices	95,660	579	0.61%	93,104	676	0.73%	96,873	731	0.75%
Foreign offices	3,531	50	1.42%	1,960	50	2.55%	3,025	49	1.62%
Total	99,191	629	0.63%	95,064	726	0.76%	99,898	780	0.78%
Total interest-bearing liabilities:									
Domestic offices	109,034,931	242,392	0.22%	108,418,444	252,693	0.23%	100,488,429	242,191	0.24%
Foreign offices	30,180,112	271,401	0.90%	29,407,118	196,132	0.67%	27,237,239	149,380	0.55%
Total	139,215,043	¥ 513,793	0.37%	137,825,562	¥ 448,825	0.33%	127,725,668	¥ 391,571	0.31%
<b>Non-interest-bearing liabilities:</b>									
Non-interest-bearing demand deposits	17,736,696			14,715,274			13,440,486		
Other non-interest-bearing liabilities	12,230,267			12,999,027			11,834,101		
Total non-interest-bearing liabilities	29,966,963			27,714,301			25,274,587		
<b>Total equity</b>	12,421,889			12,266,343			10,113,622		
<b>Total equity and liabilities</b>	¥181,603,895			¥177,806,206			¥163,113,877		
Total liabilities attributable to foreign offices	20.2%			20.5%			20.0%		
Net interest income and interest rate spread	¥1,397,088	1.17%		¥1,450,683	1.18%		¥1,412,651	1.19%	
Net interest income as a percentage of total interest-earning assets		1.12%			1.15%			1.17%	

- (1) The net amount of interest income on trading assets and interest expense on trading liabilities is reported as net trading income in our consolidated income statement.
- (2) Interest income on financial assets at fair value through profit or loss is reported in net income from financial assets at fair value through profit or loss in our consolidated income statement.
- (3) Taxable investment securities and non-taxable investment securities are not disclosed separately because the aggregate effect of these average balances and interest income would not be material. In addition, the yields on tax-exempt obligations have not been calculated on a tax equivalent basis because the effect of such calculation would not be material.
- (4) Loans and advances include impaired loans and advances. The amortized portion of net loan origination fees is included in interest income on loans and advances.

### *Analysis of Net Interest Income*

The following tables show the changes to our net interest income attributable to changes in the volume and changes in the rates for the fiscal year ended March 31, 2017 compared to the fiscal year ended March 31, 2016 and for the fiscal year ended March 31, 2016 compared to the fiscal year ended March 31, 2015.

Changes attributable to the combined impact of changes in the rates and the volume have been allocated proportionately to the changes in the volume and changes in the rates.

	Fiscal year ended March 31, 2017 compared to fiscal year ended March 31, 2016 Increase / (decrease)			Fiscal year ended March 31, 2016 compared to fiscal year ended March 31, 2015 Increase / (decrease)		
	Volume	Rate	Net change	Volume	Rate	Net change
(In millions)						
<b>Interest income:</b>						
Interest-earning deposits with other banks:						
Domestic offices	¥ (40)	¥ (632)	¥ (672)	¥ 168	¥ 55	¥ 223
Foreign offices	(8,263)	14,233	5,970	(663)	(984)	(1,647)
Total	(8,303)	13,601	5,298	(495)	(929)	(1,424)
Call loans and bills bought:						
Domestic offices	(436)	42	(394)	(443)	127	(316)
Foreign offices	5,697	(15,066)	(9,369)	(94)	3,632	3,538
Total	5,261	(15,024)	(9,763)	(537)	3,759	3,222
Reverse repurchase agreements and cash collateral on securities borrowed:						
Domestic offices	1,229	159	1,388	3,080	(192)	2,888
Foreign offices	4,487	1,715	6,202	195	1,907	2,102
Total	5,716	1,874	7,590	3,275	1,715	4,990
Trading assets <sup>(1)</sup> :						
Domestic offices	(3,503)	(9,005)	(12,508)	1,524	(4,578)	(3,054)
Foreign offices	534	95	629	23	(444)	(421)
Total	(2,969)	(8,910)	(11,879)	1,547	(5,022)	(3,475)
Financial assets at fair value through profit or loss <sup>(2)</sup> :						
Domestic offices	(125)	(4,300)	(4,425)	(108)	8,906	8,798
Held-to-maturity investments:						
Domestic offices	(4,455)	(1,669)	(6,124)	(5,090)	(2,539)	(7,629)
Available-for-sale financial assets:						
Domestic offices	(14,692)	17,552	2,860	1,582	4,416	5,998
Foreign offices	6,939	(1,239)	5,700	2,347	1,702	4,049
Total	(7,753)	16,313	8,560	3,929	6,118	10,047
Loans and advances:						
Domestic offices	63,231	(72,711)	(9,480)	20,525	(28,106)	(7,581)
Foreign offices	(23,302)	54,898	31,596	68,923	19,415	88,338
Total	39,929	(17,813)	22,116	89,448	(8,691)	80,757
Total interest income:						
Domestic offices	41,209	(70,564)	(29,355)	21,238	(21,911)	(673)
Foreign offices	(13,908)	54,636	40,728	70,731	25,228	95,959
Total	¥ 27,301	¥ (15,928)	¥ 11,373	¥ 91,969	¥ 3,317	¥ 95,286

	Fiscal year ended March 31, 2017 compared to fiscal year ended March 31, 2016 Increase / (decrease)			Fiscal year ended March 31, 2016 compared to fiscal year ended March 31, 2015 Increase / (decrease)		
	Volume	Rate	Net change	Volume	Rate	Net change
(In millions)						
<b>Interest expense:</b>						
Deposits:						
Domestic offices	¥ 2,448	¥(14,599)	¥ (12,151)	¥ 2,730	¥ (4,054)	¥ (1,324)
Foreign offices	3,785	55,082	58,867	9,149	28,920	38,069
Total	6,233	40,483	46,716	11,879	24,866	36,745
Call money and bills sold:						
Domestic offices	(715)	(717)	(1,432)	111	(91)	20
Foreign offices	(286)	1,421	1,135	(744)	2,293	1,549
Total	(1,001)	704	(297)	(633)	2,202	1,569
Repurchase agreements and cash collateral on securities lent:						
Domestic offices	(27)	(2,939)	(2,966)	1,867	624	2,491
Foreign offices	4,344	4,140	8,484	1,649	1,045	2,694
Total	4,317	1,201	5,518	3,516	1,669	5,185
Trading liabilities <sup>(1)</sup> :						
Domestic offices	(1,628)	(4,774)	(6,402)	402	(2,795)	(2,393)
Foreign offices	363	(230)	133	(63)	(284)	(347)
Total	(1,265)	(5,004)	(6,269)	339	(3,079)	(2,740)
Borrowings:						
Domestic offices	(13,227)	15,646	2,419	6,173	(4,735)	1,438
Foreign offices	471	4,742	5,213	655	(927)	(272)
Total	(12,756)	20,388	7,632	6,828	(5,662)	1,166
Debt securities in issue:						
Domestic offices	4,910	5,418	10,328	15,158	(4,833)	10,325
Foreign offices	(4,925)	6,362	1,437	840	4,218	5,058
Total	(15)	11,780	11,765	15,998	(615)	15,383
Other interest-bearing liabilities:						
Domestic offices	18	(115)	(97)	(28)	(27)	(55)
Foreign offices	29	(29)	0	(21)	22	1
Total	47	(144)	(97)	(49)	(5)	(54)
Total interest expense:						
Domestic offices	(8,221)	(2,080)	(10,301)	26,413	(15,911)	10,502
Foreign offices	3,781	71,488	75,269	11,465	35,287	46,752
Total	¥ (4,440)	¥ 69,408	¥ 64,968	¥ 37,878	¥ 19,376	¥ 57,254
<b>Net interest income:</b>						
Domestic offices	¥ 49,430	¥(68,484)	¥ (19,054)	¥ (5,175)	¥ (6,000)	¥ (11,175)
Foreign offices	(17,689)	(16,852)	(34,541)	59,266	(10,059)	49,207
Total	¥ 31,741	¥(85,336)	¥ (53,595)	¥ 54,091	¥ (16,059)	¥ 38,032

(1) The net amount of interest income on trading assets and interest expense on trading liabilities is reported as net trading income in our consolidated income statement.

(2) Interest income on financial assets at fair value through profit or loss is reported in net income from financial assets at fair value through profit or loss in our consolidated income statement.

## II. Investment Portfolio

The information as to the value of held-to-maturity investments and available-for-sale financial assets at March 31, 2017, 2016 and 2015 is presented on “Item 5.A. Operating Results—Financial Condition—Investment Securities.”

The following table shows the book values, maturities and weighted average yields of held-to-maturity investments and available-for-sale financial assets, excluding equity instruments, at March 31, 2017. Weighted average yields are calculated based on amortized cost. Yields on tax-exempt obligations have not been calculated on a tax equivalent basis because the effect of such a calculation would not be material.

	Not later than one year		Later than one year and not later than five years		Later than five years and not later than ten years		Later than ten years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
(In millions, except percentages)										
<b>Held-to-maturity investments:</b>										
Domestic:										
Japanese government bonds . . . . .	¥ 790,044	0.26%	¥ 370,707	0.44%	¥ —	—	¥ —	—	¥ 1,160,751	0.32%
Japanese municipal bonds . . . . .	1,813	0.17%	5,650	0.08%	—	—	—	—	7,463	0.10%
Japanese corporate bonds . . . . .	500	0.22%	4,705	0.25%	—	—	—	—	5,205	0.25%
Total domestic . . . . .	<u>792,357</u>	<u>0.26%</u>	<u>381,062</u>	<u>0.43%</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,173,419</u>	<u>0.32%</u>
Foreign:										
U.S. Treasury and other U.S. government agency bonds . . . . .	—	—	—	—	—	—	—	—	—	—
Bonds issued by other governments and official institutions . . . . .	—	—	—	—	—	—	—	—	—	—
Other debt instruments . . . . .	—	—	—	—	—	—	—	—	—	—
Total foreign . . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total . . . . .	<u>¥ 792,357</u>	<u>0.26%</u>	<u>¥ 381,062</u>	<u>0.43%</u>	<u>¥ —</u>	<u>—</u>	<u>¥ —</u>	<u>—</u>	<u>¥ 1,173,419</u>	<u>0.32%</u>
<b>Available-for-sale financial assets:</b>										
Domestic:										
Japanese government bonds . . . . .	¥ 80,238	0.18%	¥5,269,653	(0.04%)	¥ 223,527	(0.06%)	¥149,256	0.60%	¥ 5,722,674	(0.02%)
Japanese municipal bonds . . . . .	4,766	0.59%	28,697	0.11%	49,287	0.06%	30	1.82%	82,780	0.11%
Japanese corporate bonds . . . . .	77,515	0.32%	160,903	0.27%	49,682	0.33%	75,450	0.60%	363,550	0.36%
Total domestic . . . . .	<u>162,519</u>	<u>0.26%</u>	<u>5,459,253</u>	<u>(0.03%)</u>	<u>322,496</u>	<u>0.01%</u>	<u>224,736</u>	<u>0.60%</u>	<u>6,169,004</u>	<u>0.00%</u>
Foreign:										
U.S. Treasury and other U.S. government agency bonds . . . . .	428,315	1.00%	1,940,423	1.29%	1,099,525	1.39%	—	—	3,468,263	1.29%
Bonds issued by other governments and official institutions . . . . .	1,325,298	0.60%	153,508	3.78%	93,694	0.36%	97,353	0.40%	1,669,853	0.86%
Mortgage-backed securities <sup>(1)</sup> . . . . .	—	—	—	—	96	1.30%	633,533	2.98%	633,629	2.98%
Other debt instruments . . . . .	126,108	2.24%	19,398	1.33%	21,429	1.81%	16,086	0.45%	183,021	1.94%
Total foreign . . . . .	<u>1,879,721</u>	<u>0.80%</u>	<u>2,113,329</u>	<u>1.47%</u>	<u>1,214,744</u>	<u>1.32%</u>	<u>746,972</u>	<u>2.56%</u>	<u>5,954,766</u>	<u>1.37%</u>
Total . . . . .	<u>¥2,042,240</u>	<u>0.76%</u>	<u>¥7,572,582</u>	<u>0.39%</u>	<u>¥1,537,240</u>	<u>1.06%</u>	<u>¥971,708</u>	<u>2.12%</u>	<u>¥12,123,770</u>	<u>0.68%</u>

(1) Foreign mortgage-backed securities primarily consist of securities of Government National Mortgage Association, which are guaranteed by the U.S. government.

Excluding securities of the U.S. government and U.S. government agencies and corporations and Japanese government bonds, there are no investments in any individual issuers held in our investment portfolio which exceeded 10% of shareholders’ equity in the consolidated statement of financial position at March 31, 2017.

### III. Loan Portfolio

The following table shows our outstanding loans and advances by the domicile and industry type of the borrowers at March 31, 2017, 2016, 2015, 2014 and 2013. The classification of loans and advances by industry is based on the industry segment loan classification as defined by the Bank of Japan (“BOJ”) for regulatory reporting purposes.

	At March 31,				
	2017	2016	2015	2014	2013
	(In millions)				
<b>Domestic:</b>					
Manufacturing . . . . .	¥ 9,578,147	¥ 8,298,576	¥ 8,061,654	¥ 8,018,568	¥ 8,071,044
Agriculture, forestry, fisheries and mining . . . . .	174,021	184,314	171,855	177,012	164,420
Construction . . . . .	1,151,989	1,169,900	1,150,616	1,152,388	1,167,115
Transportation, communications and public enterprises . . . . .	5,365,225	5,258,899	5,175,949	5,086,361	4,708,870
Wholesale and retail . . . . .	5,721,005	5,548,103	5,664,385	5,505,570	5,388,032
Finance and insurance . . . . .	2,844,546	2,684,865	2,869,967	2,537,347	2,715,862
Real estate and goods rental and leasing . . . . .	10,101,846	9,587,757	8,766,724	8,117,000	8,145,769
Services . . . . .	4,885,247	4,960,352	4,776,706	4,855,536	4,404,359
Municipalities . . . . .	1,216,211	1,374,306	1,353,949	1,279,010	1,270,981
Lease financing . . . . .	2,706,641	2,212,048	2,211,773	2,133,760	2,058,284
Consumer <sup>(1)</sup> . . . . .	19,096,755	18,935,521	18,817,259	19,086,241	18,834,079
Others . . . . .	5,178,461	2,989,278	3,211,240	3,159,438	3,341,636
Total domestic . . . . .	<u>68,020,094</u>	<u>63,203,919</u>	<u>62,232,077</u>	<u>61,108,231</u>	<u>60,270,451</u>
<b>Foreign:</b>					
Public sector . . . . .	299,746	236,290	164,495	163,685	121,611
Financial institutions . . . . .	4,588,001	4,067,764	3,880,655	3,450,482	2,500,624
Commerce and industry . . . . .	21,041,905	20,451,545	20,010,729	16,435,047	13,502,283
Lease financing . . . . .	404,658	357,072	308,128	267,394	208,099
Others . . . . .	1,836,322	1,481,455	1,375,624	947,826	793,653
Total foreign . . . . .	<u>28,170,632</u>	<u>26,594,126</u>	<u>25,739,631</u>	<u>21,264,434</u>	<u>17,126,270</u>
Gross loans and advances . . . . .	96,190,726	89,798,045	87,971,708	82,372,665	77,396,721
Adjust: Unearned income, unamortized premiums-net and deferred loan fees-net . . . . .	(236,425)	(212,957)	(206,440)	(177,018)	(147,186)
Less: Allowance for loan losses . . . . .	(680,456)	(722,717)	(793,552)	(950,665)	(1,262,478)
Net loans and advances . . . . .	<u>¥95,273,845</u>	<u>¥88,862,371</u>	<u>¥86,971,716</u>	<u>¥81,244,982</u>	<u>¥75,987,057</u>

(1) The balance in Consumer mainly consists of housing loans. The housing loan balances amounted to ¥13,766,771 million, ¥13,984,755 million, ¥14,087,453 million, ¥14,420,225 million and ¥14,520,154 million at March 31, 2017, 2016, 2015, 2014 and 2013, respectively.

***Maturities and Sensitivities of Loans and Advances to Changes in Interest Rates***

The following table shows the maturities of loans and advances by the domicile and industry type of the borrower at March 31, 2017.

	Maturity			Total
	Not later than one year	Later than one year and not later than five years	Later than five years	
(In millions)				
<b>Domestic:</b>				
Manufacturing . . . . .	¥ 5,505,691	¥ 2,843,167	¥ 1,229,289	¥ 9,578,147
Agriculture, forestry, fisheries and mining . . . . .	48,031	89,895	36,095	174,021
Construction . . . . .	611,932	397,169	142,888	1,151,989
Transportation, communications and public enterprises . . . . .	1,584,342	2,764,164	1,016,719	5,365,225
Wholesale and retail . . . . .	3,031,995	2,041,807	647,203	5,721,005
Finance and insurance . . . . .	1,590,069	1,044,090	210,387	2,844,546
Real estate and goods rental and leasing . . . . .	2,367,132	4,283,394	3,451,320	10,101,846
Services . . . . .	1,434,733	2,020,931	1,429,583	4,885,247
Municipalities . . . . .	458,574	395,604	362,033	1,216,211
Lease financing . . . . .	884,743	1,547,951	273,947	2,706,641
Consumer . . . . .	3,659,660	4,462,711	10,974,384	19,096,755
Others . . . . .	2,574,357	887,759	1,716,345	5,178,461
Total domestic . . . . .	23,751,259	22,778,642	21,490,193	68,020,094
<b>Foreign:</b>				
Public sector . . . . .	16,506	198,412	84,828	299,746
Financial institutions . . . . .	2,054,767	2,005,877	527,357	4,588,001
Commerce and industry . . . . .	6,468,871	9,844,249	4,728,785	21,041,905
Lease financing . . . . .	64,860	250,015	89,783	404,658
Others . . . . .	623,104	938,947	274,271	1,836,322
Total foreign . . . . .	9,228,108	13,237,500	5,705,024	28,170,632
Total . . . . .	¥ 32,979,367	¥ 36,016,142	¥ 27,195,217	¥ 96,190,726

The above loans and advances due after one year which had predetermined interest rates and floating or adjustable interest rates at March 31, 2017 are shown below:

	Domestic	Foreign	Total
(In millions)			
Predetermined rate . . . . .	¥14,866,251	¥ 2,599,328	¥17,465,579
Floating or adjustable rate . . . . .	29,402,584	16,343,196	45,745,780
Total . . . . .	¥44,268,835	¥18,942,524	¥63,211,359

***Impaired Loans and Advances***

Our credit risk elements analyzed by categories for loans and advances differ from those required by the U.S. Securities and Exchange Commission. Our impaired loans and advances are comprised of “potentially bankrupt, effectively bankrupt and bankrupt (loans and advances),” “past due three months or more (loans),” “restructured (loans)” and “other impaired (loans and advances).” “Potentially bankrupt, effectively bankrupt and bankrupt (loans and advances)” comprises of loans and advances to the borrowers that are perceived to have a high risk of falling into bankruptcy, may not have been legally or formally declared bankrupt but are essentially



bankrupt, or have been legally or formally declared bankrupt. Loans classified as “past due three months or more (loans)” represent those loans that are three months or more past due as to principal or interest, which are not included in “potentially bankrupt, effectively bankrupt and bankrupt (loans and advances).” The category “restructured (loans)” comprises of loans not included above for which the terms of the loans have been modified to grant concessions because of problems with the borrower. Examples of modifications to grant concessions include reductions of the original interest rate, deferrals of interest payments, deductions of the contractual repayment amounts and extensions of principal repayments such as the extension of the repayment date and the suspension of contracted repayments. “Other impaired (loans and advances)” represent impaired loans and advances, which are not included in “potentially bankrupt, effectively bankrupt and bankrupt (loans and advances),” “past due three months or more (loans),” or “restructured (loans),” but for which information about credit problems cause management to classify them as impaired loans and advances. All loans and advances for which management has serious doubts about the ability of the borrowers to comply in the near future with the repayment terms are included in impaired loans and advances.

An allowance is recorded if there is objective evidence of impairment and the carrying value of the loans and advances exceeds the present value of their estimated future cash flows discounted at the original effective interest rate. Cash receipts on impaired loans and advances are recorded as a credit to the balance of loans and advances on the statement of financial position. To the extent that cash receipts are different from expectations built into the calculation of the recoverable amount of the loans and advances, the amount of allowance for loan losses is revised. In accordance with IFRS, the accrual of interest as per the contractual terms is discontinued when loans and advances are determined to be impaired. Interest income recognized in the consolidated income statement on impaired loans and advances represents the accretion of the net present value of the written down amount due to the passage of time based on the original effective interest rate of the loans and advances.

The following table shows the distribution of impaired loans and advances by “potentially bankrupt, effectively bankrupt and bankrupt (loans and advances),” “past due three months or more (loans),” “restructured (loans),” and “other impaired (loans and advances)” at March 31, 2017, 2016, 2015, 2014 and 2013 by the domicile and industry type of the borrowers.

	At March 31,				
	2017	2016	2015	2014	2013
	(In millions)				
<b>Potentially bankrupt, effectively bankrupt and bankrupt (loans and advances):</b>					
Domestic:					
Manufacturing .....	¥ 106,178	¥ 119,318	¥ 149,686	¥ 183,257	¥ 215,600
Agriculture, forestry, fisheries and mining .....	2,250	2,843	7,146	3,251	5,210
Construction .....	24,430	25,932	36,903	69,144	101,255
Transportation, communications and public enterprises .....	23,692	38,008	52,168	56,782	109,449
Wholesale and retail .....	104,472	125,241	156,753	208,491	232,779
Finance and insurance .....	4,135	8,302	9,551	13,378	15,822
Real estate and goods rental and leasing .....	126,179	133,324	198,714	291,665	449,163
Services .....	91,943	126,781	161,384	192,191	203,197
Lease financing .....	7,513	16,122	18,522	21,079	17,030
Consumer .....	194,721	213,931	223,464	238,563	270,060
Others .....	25,059	32,503	43,443	59,812	69,859
Total domestic .....	710,572	842,305	1,057,734	1,337,613	1,689,424
Foreign:					
Public sector .....	—	31	14	14	14
Financial institutions .....	29	28	19,720	2,647	6,191
Commerce and industry .....	157,227	148,475	146,821	131,254	178,022
Lease financing .....	11,892	11,104	8,969	8,623	7,522
Others .....	23,890	5,682	6,152	4,566	2,271
Total foreign .....	193,038	165,320	181,676	147,104	194,020
Total .....	903,610	1,007,625	1,239,410	1,484,717	1,883,444
<b>Past due three months or more (loans):</b>					
Domestic .....	20,808	21,861	23,586	25,959	27,102
Foreign .....	11,449	7,962	398	437	557
Total .....	32,257	29,823	23,984	26,396	27,659
<b>Restructured (loans):</b>					
Domestic .....	155,100	164,035	144,628	247,351	337,494
Foreign .....	25,741	22,401	43,330	37,475	29,650
Total .....	180,841	186,436	187,958	284,826	367,144
<b>Other impaired (loans and advances):</b>					
Domestic .....	103,777	126,211	140,858	152,873	204,775
Foreign .....	8,203	2,492	5,892	1	119
Total .....	111,980	128,703	146,750	152,874	204,894
Gross impaired loans and advances .....	1,228,688	1,352,587	1,598,102	1,948,813	2,483,141
Less: Allowance for loan losses for impaired loans and advances .....	(532,451)	(613,510)	(699,207)	(857,095)	(1,144,130)
Net impaired loans and advances .....	¥ 696,237	¥ 739,077	¥ 898,895	¥1,091,718	¥ 1,339,011

### ***Interest Foregone on Impaired Loans and Advances***

Interest income which would have been accrued at the original terms on domestic impaired loans and advances during the fiscal year ended March 31, 2017 was ¥27.8 billion, of which ¥14.9 billion was included in profit or loss for the fiscal year then ended. Interest income which would have been accrued at the original terms on foreign impaired loans and advances during the fiscal year ended March 31, 2017 was ¥4.3 billion, of which ¥2.0 billion was included in profit or loss for the fiscal year then ended.

### ***Cross-border Outstanding***

Cross-border outstandings are defined as loans, acceptances, interest-earning deposits with other banks, other interest-earning investments and any other monetary assets denominated in Japanese yen or other non-local currencies. Local currency outstandings are netted out from cross-border outstandings. This cross-border disclosure is based on the reports to the BOJ required under Japanese foreign exchange-related laws. The following tables list the country for which cross-border outstandings exceeded 0.75% of consolidated total assets at March 31, 2017, 2016 and 2015.

<b>At March 31, 2017</b>						
	<b>Public institutions</b>	<b>Banks</b>	<b>Others</b>	<b>Total</b>	<b>% of total assets</b>	<b>Undrawn commitments</b>
<b>(In millions, except percentages)</b>						
United Kingdom . . . . .	¥4,403	¥275,243	¥1,451,955	¥1,731,601	0.91%	¥1,560,865
<b>At March 31, 2016</b>						
	<b>Public institutions</b>	<b>Banks</b>	<b>Others</b>	<b>Total</b>	<b>% of total assets</b>	<b>Undrawn commitments</b>
<b>(In millions, except percentages)</b>						
United Kingdom . . . . .	¥1,852	¥556,271	¥1,215,588	¥1,773,711	0.98%	¥1,422,058
<b>At March 31, 2015</b>						
	<b>Public institutions</b>	<b>Banks</b>	<b>Others</b>	<b>Total</b>	<b>% of total assets</b>	<b>Undrawn commitments</b>
<b>(In millions, except percentages)</b>						
United Kingdom . . . . .	¥7,483	¥775,915	¥1,007,531	¥1,790,929	0.99%	¥1,155,306

### ***Loan Concentrations***

At March 31, 2017, there were no concentrations of loans and advances to a single industry group of borrowers, as defined by the BOJ industry segment loan and advance classifications, which exceeded 10% of our consolidated total loans and advances, except for loans and advances in a category disclosed in the table of outstanding loans and advances above.

#### IV. Summary of Loan Loss Experience

The following table shows an analysis of our loan loss experience by the borrowers' domicile and industry type for the fiscal years ended March 31, 2017, 2016, 2015, 2014 and 2013.

	For the fiscal year ended March 31,				
	2017	2016	2015	2014	2013
	(In millions, except percentages)				
Allowance for loan losses at beginning of period	¥722,717	¥793,552	¥950,665	¥1,262,478	¥1,381,164
Provision (credit) for loan losses	141,457	118,750	79,552	(25,806)	138,375
<b>Charge-offs:</b>					
Domestic:					
Manufacturing	9,712	20,992	26,516	25,610	16,037
Agriculture, forestry, fisheries and mining	388	33	112	187	553
Construction	1,810	6,407	8,593	20,958	7,848
Transportation, communications and public enterprises	9,731	5,891	8,662	5,309	7,062
Wholesale and retail	13,293	14,824	27,357	27,944	18,062
Finance and insurance	16	423	1,117	533	354
Real estate and goods rental and leasing	6,246	21,017	54,003	73,025	36,003
Services	5,731	14,396	21,143	30,970	17,325
Lease financing	454	651	1,433	1,582	3,689
Consumer	102,383	87,969	88,795	93,616	127,804
Others	7,609	828	2,932	3,300	6,400
Total domestic	157,373	173,431	240,663	283,034	241,137
Foreign:					
Financial institutions	—	—	1,017	599	4,063
Commerce and industry	24,658	13,236	4,571	14,959	13,735
Lease financing	177	3	167	1,292	2,060
Others	8,300	6,979	3,478	2,797	3,203
Total foreign	33,135	20,218	9,233	19,647	23,061
Total	190,508	193,649	249,896	302,681	264,198
<b>Recoveries:</b>					
Domestic:					
Manufacturing	61	80	62	12	14
Agriculture, forestry, fisheries and mining	5	—	—	—	—
Construction	6	6	17	16	21
Transportation, communications and public enterprises	62	5	14	3	12
Wholesale and retail	86	45	72	19	22
Finance and insurance	—	2	1	—	19
Real estate and goods rental and leasing	1	55	47	20	19
Services	40	61	63	33	16
Consumer	9,571	9,223	9,234	9,186	9,976
Others	20	—	7	4	4
Total domestic	9,852	9,477	9,517	9,293	10,103
Foreign:					
Financial institutions	15	109	—	25	2
Commerce and industry	5	335	14	3	18
Others	425	427	366	334	313
Total foreign	445	871	380	362	333
Total	10,297	10,348	9,897	9,655	10,436
Net charge-offs	180,211	183,301	239,999	293,026	253,762
Others <sup>(1)</sup>	(3,507)	(6,284)	3,334	7,019	(3,299)
Allowance for loan losses at end of period	¥680,456	¥722,717	¥793,552	¥ 950,665	¥1,262,478
Ratio of net charge-offs to average loans outstanding during the period	0.20%	0.20%	0.28%	0.36%	0.34%
Allowance for loan losses applicable to foreign activities:					
Balance at beginning of period	¥134,664	¥100,783	¥ 73,030	¥ 74,868	¥ 87,344
Balance at end of period	¥128,347	¥134,664	¥100,783	¥ 73,030	¥ 74,868
Provision for loan losses	¥ 29,699	¥ 60,002	¥ 32,712	¥ 10,462	¥ 1,692

(1) Others mainly include foreign exchange translations for the fiscal years ended March 31, 2017, 2016, 2015 and 2014, whereas the amount for the fiscal year ended March 31, 2013 mainly includes foreign exchange translations as well as the exclusion of the allowance for loan losses related to ORIX Credit Corporations, as the Bank transferred all of its shares of ORIX Credit Corporation to ORIX Corporation in June 2012.

The following table shows an allocation of the allowance for loan losses by the borrower's domicile and industry type at March 31, 2017, 2016, 2015, 2014 and 2013.

	At March 31,									
	2017		2016		2015		2014		2013	
	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans
	(In millions, except percentages)									
<b>Domestic:</b>										
Manufacturing . . . . .	¥101,936	9.96%	¥ 63,720	9.24%	¥ 82,938	9.16%	¥113,463	9.73%	¥ 140,424	10.43%
Agriculture, forestry, fisheries and mining . . . . .	2,251	0.18%	2,712	0.21%	2,673	0.20%	3,310	0.21%	3,968	0.21%
Construction . . . . .	14,142	1.20%	15,212	1.30%	22,532	1.31%	40,289	1.40%	63,032	1.51%
Transportation, communications and public enterprises . . . . .	16,237	5.58%	25,119	5.86%	30,555	5.88%	27,196	6.17%	50,789	6.08%
Wholesale and retail . . . . .	54,896	5.95%	73,230	6.18%	84,941	6.44%	116,862	6.68%	151,075	6.96%
Finance and insurance . . . . .	3,982	2.96%	6,886	2.99%	7,990	3.26%	11,209	3.08%	12,373	3.51%
Real estate and goods rental and leasing . . . . .	85,813	10.50%	94,669	10.68%	127,205	9.97%	194,706	9.85%	312,614	10.53%
Services . . . . .	52,282	5.08%	60,735	5.52%	77,829	5.43%	96,465	5.89%	132,377	5.69%
Municipalities . . . . .	—	1.26%	1	1.53%	1	1.54%	1	1.55%	1	1.64%
Lease financing . . . . .	4,114	2.81%	11,567	2.46%	13,600	2.51%	14,487	2.59%	17,151	2.66%
Consumer . . . . .	194,964	19.85%	208,274	21.09%	208,661	21.39%	215,882	23.17%	250,282	24.33%
Others . . . . .	21,492	5.38%	25,928	3.32%	33,844	3.65%	43,765	3.87%	53,524	4.32%
Total domestic . . . . .	552,109	70.71%	588,053	70.38%	692,769	70.74%	877,635	74.19%	1,187,610	77.87%
<b>Foreign:</b>										
Public sector . . . . .	88	0.31%	105	0.26%	48	0.19%	303	0.20%	209	0.16%
Financial institutions . . . . .	3,186	4.77%	3,347	4.53%	1,871	4.41%	3,325	4.19%	5,454	3.23%
Commerce and industry . . . . .	108,076	21.88%	117,671	22.78%	86,007	22.75%	60,646	19.95%	63,261	17.45%
Lease financing . . . . .	6,713	0.42%	3,998	0.40%	4,654	0.35%	3,285	0.32%	3,195	0.27%
Others . . . . .	10,284	1.91%	9,543	1.65%	8,203	1.56%	5,471	1.15%	2,749	1.02%
Total foreign . . . . .	128,347	29.29%	134,664	29.62%	100,783	29.26%	73,030	25.81%	74,868	22.13%
Total . . . . .	¥680,456	100.00%	¥722,717	100.00%	¥793,552	100.00%	¥950,665	100.00%	¥1,262,478	100.00%

## V. Deposits

The following table shows the average amount of, and the average rate paid on, the following deposit categories for the fiscal years ended March 31, 2017, 2016 and 2015.

	For the fiscal year ended March 31					
	2017		2016		2015	
	Average amount	Average rate	Average amount	Average rate	Average amount	Average rate
	(In millions, except percentages)					
<b>Domestic offices:</b>						
Non-interest-bearing demand deposits . . . . .	¥ 16,791,818	—	¥ 13,840,697	—	¥ 12,747,566	—
Interest-bearing demand deposits . . . . .	46,984,288	0.00%	42,036,200	0.02%	38,953,418	0.02%
Deposits at notice . . . . .	906,703	0.00%	779,789	0.02%	747,898	0.03%
Time deposits . . . . .	22,678,544	0.07%	23,703,225	0.10%	24,202,595	0.10%
Negotiable certificates of deposit . . . . .	6,064,857	0.02%	7,027,345	0.08%	5,969,374	0.09%
Others . . . . .	6,103,623	0.30%	4,911,611	0.23%	4,524,551	0.24%
Total domestic offices . . . . .	<u>99,529,833</u>		<u>92,298,867</u>		<u>87,145,402</u>	
<b>Foreign offices:</b>						
Non-interest-bearing demand deposits . . . . .	944,878	—	874,577	—	692,920	—
Interest-bearing demand deposits . . . . .	2,524,336	0.40%	1,859,753	0.33%	1,277,325	0.26%
Deposits at notice . . . . .	8,212,986	0.52%	8,598,461	0.32%	7,285,133	0.29%
Time deposits . . . . .	6,266,975	1.53%	5,277,263	1.40%	3,672,870	1.46%
Negotiable certificates of deposit . . . . .	6,249,295	1.02%	6,973,391	0.66%	8,922,100	0.42%
Others . . . . .	129,410	0.48%	129,662	0.83%	106,491	1.09%
Total foreign offices . . . . .	<u>24,327,880</u>		<u>23,713,107</u>		<u>21,956,839</u>	
Total . . . . .	<u>¥123,857,713</u>		<u>¥116,011,974</u>		<u>¥109,102,241</u>	

Deposits at notice represent interest-bearing demand deposits which require the depositor to give two or more days notice in advance of withdrawal.

The total amount of deposits by foreign depositors included in domestic offices for the fiscal years ended March 31, 2017, 2016 and 2015 were ¥2,078,931 million, ¥1,915,610 million and ¥1,748,689 million, respectively.

At March 31, 2017, the balances and remaining maturities of time deposits and negotiable certificates of deposit issued by domestic offices in amounts of ¥10 million (approximately \$89,135 at the median exchange rate for buying and selling spot dollars for yen by telegraphic transfer as determined by the Bank at the end of the current fiscal year) or more and total foreign deposits issued in amounts of \$100,000 or more are shown in the following table.

	Time deposits	Negotiable certificates of deposit	Total
	(In millions)		
<b>Domestic offices:</b>			
Not later than three months . . . . .	¥ 3,279,356	¥5,216,922	¥ 8,496,278
Later than three months and not later than six months . . . . .	1,548,465	702,470	2,250,935
Later than six months and not later than one year . . . . .	4,344,462	15,333	4,359,795
Later than one year . . . . .	2,156,834	86,511	2,243,345
Total . . . . .	<u>¥11,329,117</u>	<u>¥6,021,236</u>	<u>¥17,350,353</u>
<b>Foreign offices:</b> . . . . .	<u>¥ 7,269,720</u>	<u>¥4,853,690</u>	<u>¥12,123,410</u>

## VI. Return on Equity and Assets

The following table shows the ratio of return on equity and assets for the fiscal years ended March 31, 2017, 2016 and 2015.

	For the fiscal year ended March 31,		
	2017	2016	2015
Return on average total assets . . . . .	0.3%	0.5%	0.4%
Return on average shareholders' equity . . . . .	6.0%	8.1%	7.3%
Dividends payout ratio <sup>(1)</sup> :			
Basic . . . . .	32.7%	25.1%	27.8%
Diluted . . . . .	32.7%	25.1%	27.8%
Average shareholders' equity to average total assets . . . . .	5.8%	5.8%	5.1%

(1) Dividends declared per common share as a percentage of net profit per share.

## VII. Short-Term Borrowings

The following table shows certain additional information with respect to our short-term borrowings for the fiscal years ended March 31, 2017, 2016 and 2015.

	For the fiscal year ended March 31,		
	2017	2016	2015
	(In millions, except percentages)		
<b>Call money, and payables under repurchase agreements and securities lending transactions:</b>			
Average balance outstanding during the period . . . . .	¥11,453,458	¥12,044,622	¥ 9,957,560
Maximum balance outstanding at any month-end during the period . . . . .	15,172,714	16,507,993	14,693,207
Balance at end of period . . . . .	11,512,526	8,059,930	14,693,207
Weighted average interest rate during the period . . . . .	0.23%	0.17%	0.14%
Weighted average interest rate on balance at end of period . . . . .	0.34%	0.16%	0.11%
<b>Commercial paper:</b>			
Average balance outstanding during the period . . . . .	3,456,337	4,555,927	4,223,418
Maximum balance outstanding at any month-end during the period . . . . .	4,095,896	5,301,064	4,839,788
Balance at end of period . . . . .	3,518,346	4,169,515	4,813,902
Weighted average interest rate during the period . . . . .	0.44%	0.28%	0.21%
Weighted average interest rate on balance at end of period . . . . .	0.54%	0.38%	0.24%
<b>Short-term borrowings:</b>			
Average balance outstanding during the period . . . . .	4,091,095	4,757,270	5,342,390
Maximum balance outstanding at any month-end during the period . . . . .	7,546,496	5,501,614	6,802,740
Balance at end of period . . . . .	7,546,496	3,073,509	6,746,249
Weighted average interest rate during the period . . . . .	0.16%	0.17%	0.18%
Weighted average interest rate on balance at end of period . . . . .	0.09%	0.20%	0.14%

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders  
Sumitomo Mitsui Financial Group, Inc.:

We have audited the accompanying consolidated statement of financial position of Sumitomo Mitsui Financial Group, Inc. and subsidiaries (the “SMFG Group”) as of March 31, 2017 and 2016, and the related consolidated income statement and consolidated statements of comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended March 31, 2017. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the SMFG Group as of March 31, 2017 and 2016, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2017, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Sumitomo Mitsui Financial Group, Inc.’s internal control over financial reporting as of March 31, 2017, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 23, 2017 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

/s/ KPMG AZSA LLC

Tokyo, Japan  
June 23, 2017

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders  
Sumitomo Mitsui Financial Group, Inc.:

We have audited Sumitomo Mitsui Financial Group, Inc.'s internal control over financial reporting as of March 31, 2017, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Sumitomo Mitsui Financial Group, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting, included in Item 15 "Controls and Procedures" of the accompanying Form 20-F. Our responsibility is to express an opinion on Sumitomo Mitsui Financial Group Inc.'s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Sumitomo Mitsui Financial Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of March 31, 2017, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial position of Sumitomo Mitsui Financial Group, Inc. and subsidiaries as of March 31, 2017 and 2016, and the related consolidated income statement and consolidated statements of comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended March 31, 2017, and our report dated June 23, 2017 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG AZSA LLC

Tokyo, Japan  
June 23, 2017

## CONSOLIDATED FINANCIAL STATEMENTS

### Consolidated Statement of Financial Position

	Note	At March 31,	
		2017	2016
		(In millions)	
<b>Assets:</b>			
Cash and deposits with banks . . . . .	5	¥ 47,330,155	¥ 43,144,654
Call loans and bills bought . . . . .		1,872,209	1,291,366
Reverse repurchase agreements and cash collateral on securities borrowed . . . . .		8,924,385	8,236,516
Trading assets . . . . .	6	3,776,671	3,615,092
Derivative financial instruments . . . . .	7	4,063,982	5,290,825
Financial assets at fair value through profit or loss . . . . .	8	1,599,093	1,611,877
Investment securities . . . . .	9	19,073,937	19,865,347
Loans and advances . . . . .	10	95,273,845	88,862,371
Investments in associates and joint ventures . . . . .	11	675,704	702,264
Property, plant and equipment . . . . .	12	2,686,055	2,590,951
Intangible assets . . . . .	14	1,096,568	1,048,093
Other assets . . . . .	15	4,456,031	3,654,448
Current tax assets . . . . .		240,385	143,534
Deferred tax assets . . . . .	22	81,961	115,314
<b>Total assets</b> . . . . .		<b>¥191,150,981</b>	<b>¥180,172,652</b>
<b>Liabilities:</b>			
Deposits . . . . .	16	¥130,295,290	¥125,940,797
Call money and bills sold . . . . .		2,088,020	1,220,456
Repurchase agreements and cash collateral on securities lent . . . . .		9,424,506	6,839,474
Trading liabilities . . . . .	17	2,071,584	2,197,673
Derivative financial instruments . . . . .	7	3,889,694	5,086,083
Borrowings . . . . .	18	12,245,943	9,914,129
Debt securities in issue . . . . .	19	11,165,623	10,829,612
Provisions . . . . .	20	194,700	262,401
Other liabilities . . . . .	21	7,488,766	6,410,733
Current tax liabilities . . . . .		79,371	93,307
Deferred tax liabilities . . . . .	22	320,201	335,888
<b>Total liabilities</b> . . . . .		<b>179,263,698</b>	<b>169,130,553</b>
<b>Equity:</b>			
Capital stock . . . . .	24	2,337,896	2,337,896
Capital surplus . . . . .	24	864,052	863,503
Retained earnings . . . . .	24	4,609,496	4,186,683
Other reserves . . . . .	24	2,134,042	1,991,955
Treasury stock . . . . .	24	(12,913)	(175,381)
Equity attributable to shareholders of Sumitomo Mitsui Financial Group, Inc. . . . .		9,932,573	9,204,656
Non-controlling interests . . . . .	25	1,505,001	1,537,548
Equity attributable to other equity instruments holders . . . . .	25	449,709	299,895
<b>Total equity</b> . . . . .		<b>11,887,283</b>	<b>11,042,099</b>
<b>Total equity and liabilities</b> . . . . .		<b>¥191,150,981</b>	<b>¥180,172,652</b>

The accompanying notes are an integral part of the Consolidated Financial Statements.

## Consolidated Income Statement

		For the fiscal year ended March 31,		
		2017	2016	2015
		(In millions, except per share data)		
	Note			
Interest income		¥1,900,261	¥1,872,584	¥1,782,621
Interest expense		502,338	431,101	371,107
Net interest income	26	1,397,923	1,441,483	1,411,514
Fee and commission income		1,066,412	1,031,680	1,002,766
Fee and commission expense		181,573	131,381	129,253
Net fee and commission income	27	884,839	900,299	873,513
Net trading income	28	183,963	462,682	127,759
Net income from financial assets at fair value through profit or loss	29	2,018	12,260	22,678
Net investment income	30	305,327	375,229	371,064
Other income	31	573,825	496,273	525,905
<b>Total operating income</b>		<b>3,347,895</b>	<b>3,688,226</b>	<b>3,332,433</b>
Impairment charges on financial assets	32	212,967	148,356	90,138
<b>Net operating income</b>		<b>3,134,928</b>	<b>3,539,870</b>	<b>3,242,295</b>
General and administrative expenses	33	1,752,135	1,706,263	1,621,897
Other expenses	34	531,759	538,963	505,614
<b>Operating expenses</b>		<b>2,283,894</b>	<b>2,245,226</b>	<b>2,127,511</b>
Share of post-tax profit of associates and joint ventures		29,318	31,056	18,124
<b>Profit before tax</b>		<b>880,352</b>	<b>1,325,700</b>	<b>1,132,908</b>
Income tax expense	35	139,766	372,878	409,947
<b>Net profit</b>		<b>¥ 740,586</b>	<b>¥ 952,822</b>	<b>¥ 722,961</b>
Profit attributable to:				
Shareholders of Sumitomo Mitsui Financial Group, Inc.		¥ 627,870	¥ 843,920	¥ 614,070
Non-controlling interests		104,787	106,129	108,891
Other equity instruments holders		7,929	2,773	—
Earnings per share:				
Basic	36	¥ 458.56	¥ 617.25	¥ 449.13
Diluted	36	458.18	616.83	448.86

The accompanying notes are an integral part of the Consolidated Financial Statements.

## Consolidated Statement of Comprehensive Income

	For the fiscal year ended March 31,		
	2017	2016	2015
	(In millions)		
<b>Net profit</b> .....	¥ 740,586	¥ 952,822	¥ 722,961
<b>Other comprehensive income:</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Remeasurements of defined benefit plans:			
Gains (losses) arising during the period, before tax .....	8,134	(154,273)	181,638
Share of other comprehensive income (loss) of associates and joint ventures .....	(462)	558	192
Income tax relating to items that will not be reclassified .....	(2,315)	48,550	(58,081)
Total items that will not be reclassified to profit or loss, net of tax ....	5,357	(105,165)	123,749
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Available-for-sale financial assets:			
Gains (losses) arising during the period, before tax .....	371,438	(551,572)	1,392,139
Reclassification adjustments for (gains) losses included in net profit, before tax .....	(109,990)	(217,529)	(232,281)
Exchange differences on translating foreign operations:			
Gains (losses) arising during the period, before tax .....	(24,063)	(219,904)	301,796
Reclassification adjustments for (gains) losses included in net profit, before tax .....	(4)	8	(2,164)
Share of other comprehensive income (loss) of associates and joint ventures .....	(21,140)	(14,362)	5,562
Income tax relating to items that may be reclassified .....	(80,074)	308,623	(301,129)
Total items that may be reclassified subsequently to profit or loss, net of tax .....	136,167	(694,736)	1,163,923
<b>Other comprehensive income (loss), net of tax</b> .....	141,524	(799,901)	1,287,672
<b>Total comprehensive income</b> .....	¥ 882,110	¥ 152,921	¥ 2,010,633
Total comprehensive income attributable to:			
Shareholders of Sumitomo Mitsui Financial Group, Inc. ....	¥ 769,957	¥ 76,791	¥ 1,826,328
Non-controlling interests .....	104,224	73,357	184,305
Other equity instruments holders .....	7,929	2,773	—

The accompanying notes are an integral part of the Consolidated Financial Statements.

## Consolidated Statement of Changes in Equity

	Capital stock	Capital surplus	Retained earnings	Remeasurements of defined benefit plans	Available-for-sale financial assets	Exchange differences on translating foreign operations	Treasury stock	Equity attributable to SMFG's shareholders	Non-controlling interests	Equity attributable to other equity holders	Total equity
	(In millions)										
<b>Balance at April 1, 2014</b>	¥2,337,896	¥862,518	¥3,112,571	¥ (1,982)	¥1,397,450	¥ 151,358	¥(175,115)	¥7,684,696	¥1,730,494	¥ —	¥ 9,415,190
<b>Comprehensive income:</b>											
Net profit	—	—	614,070	—	—	—	—	614,070	108,891	—	722,961
Other comprehensive income	—	—	—	122,298	837,186	252,774	—	1,212,258	75,414	—	1,287,672
<b>Total comprehensive income</b>	—	—	614,070	122,298	837,186	252,774	—	1,826,328	184,305	—	2,010,633
Acquisition and disposal of subsidiaries and businesses-net	—	—	—	—	—	—	—	—	(31,678)	—	(31,678)
Transaction with non-controlling interest shareholders	—	—	(1,045)	—	—	—	—	(1,045)	948	—	(97)
Dividends to shareholders	—	—	(170,908)	—	—	—	—	(170,908)	(78,097)	—	(249,005)
Redemption of preferred securities	—	—	—	—	—	—	—	—	(124,500)	—	(124,500)
Purchase of treasury stock	—	—	—	—	—	—	(161)	(161)	—	—	(161)
Sale of treasury stock	—	—	—	—	—	—	15	15	—	—	15
Gains on sale of treasury stock	—	2	—	—	—	—	—	2	—	—	2
Others	—	451	—	—	—	—	—	451	—	—	451
<b>Balance at March 31, 2015</b>	2,337,896	862,971	3,554,688	120,316	2,234,636	404,132	(175,261)	9,339,378	1,681,472	—	11,020,850
<b>Comprehensive income:</b>											
Net profit	—	—	843,920	—	—	—	—	843,920	106,129	2,773	952,822
Other comprehensive income	—	—	—	(101,331)	(478,002)	(187,796)	—	(767,129)	(32,772)	—	(799,901)
<b>Total comprehensive income</b>	—	—	843,920	(101,331)	(478,002)	(187,796)	—	76,791	73,357	2,773	152,921
Issuance of other equity instruments	—	—	—	—	—	—	—	—	—	299,895	299,895
Acquisition and disposal of subsidiaries and businesses-net	—	—	—	—	—	—	—	—	1,371	—	1,371
Transaction with non-controlling interest shareholders	—	—	(3)	—	—	—	—	(3)	58	—	55
Dividends to shareholders	—	—	(211,922)	—	—	—	—	(211,922)	(76,710)	—	(288,632)
Coupons on other equity instruments	—	—	—	—	—	—	—	—	—	(2,773)	(2,773)
Redemption of preferred securities	—	—	—	—	—	—	—	—	(142,000)	—	(142,000)
Purchase of treasury stock	—	—	—	—	—	—	(192)	(192)	—	—	(192)
Sale of treasury stock	—	—	—	—	—	—	72	72	—	—	72
Loss on sale of treasury stock	—	(18)	—	—	—	—	—	(18)	—	—	(18)
Others	—	550	—	—	—	—	—	550	—	—	550
<b>Balance at March 31, 2016</b>	2,337,896	863,503	4,186,683	18,985	1,756,634	216,336	(175,381)	9,204,656	1,537,548	299,895	11,042,099
<b>Comprehensive income:</b>											
Net profit	—	—	627,870	—	—	—	—	627,870	104,787	7,929	740,586
Other comprehensive income	—	—	—	3,789	173,260	(34,962)	—	142,087	(563)	—	141,524
<b>Total comprehensive income</b>	—	—	627,870	3,789	173,260	(34,962)	—	769,957	104,224	7,929	882,110
Issuance of other equity instruments	—	—	—	—	—	—	—	—	—	149,916	149,916
Acquisition and disposal of subsidiaries and businesses-net	—	—	—	—	—	—	—	—	14,888	—	14,888
Transaction with non-controlling interest shareholders	—	—	26	—	—	—	—	26	437	—	463
Dividends to shareholders	—	—	(205,083)	—	—	—	—	(205,083)	(65,956)	—	(271,039)
Coupons on other equity instruments	—	—	—	—	—	—	—	—	—	(7,929)	(7,929)
Redemption of preferred securities	—	—	—	—	—	—	—	—	(86,140)	—	(86,140)
Purchase of treasury stock	—	—	—	—	—	—	(100)	(100)	—	—	(100)
Sale of treasury stock	—	—	—	—	—	—	162,568	162,568	—	—	162,568
Loss on sale of treasury stock	—	(2)	—	—	—	—	—	(2)	—	—	(2)
Others	—	551	—	—	—	—	—	551	—	(102)	449
<b>Balance at March 31, 2017</b>	¥2,337,896	¥864,052	¥4,609,496	¥ 22,774	¥1,929,894	¥ 181,374	¥ (12,913)	¥9,932,573	¥1,505,001	¥ 449,709	¥11,887,283

The accompanying notes are an integral part of the Consolidated Financial Statements.

## Consolidated Statement of Cash Flows

	<b>For the fiscal year ended March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	(In millions)		
<b>Operating Activities:</b>			
Profit before tax	¥ 880,352	¥ 1,325,700	¥ 1,132,908
Adjustments for:			
Gains on financial assets at fair value through profit or loss and investment securities	(112,008)	(235,415)	(247,825)
Foreign exchange (gains) losses	241,570	556,073	(726,632)
Provision for loan losses	141,457	118,750	79,552
Depreciation and amortization	301,638	255,971	240,760
Share of post-tax profit of associates and joint ventures	(29,318)	(31,056)	(18,124)
Net changes in assets and liabilities:			
Net (increase) decrease of term deposits with original maturities over three months	(57,503)	(11,071)	6,550
Net (increase) decrease of call loans and bills bought	(640,331)	(18,233)	41,149
Net increase of reverse repurchase agreements and cash collateral on securities borrowed	(698,940)	(1,040,858)	(2,817,147)
Net increase of loans and advances	(6,267,726)	(2,258,824)	(5,340,732)
Net change of trading assets and liabilities and derivative financial instruments	(250,579)	(837,291)	744,344
Net increase of deposits	4,505,200	8,230,157	7,334,698
Net increase (decrease) of call money and bills sold	911,525	(4,615,144)	1,657,077
Net increase (decrease) of repurchase agreements and cash collateral on securities lent	2,610,655	(1,974,347)	1,704,138
Net increase (decrease) of other unsubordinated borrowings and debt securities in issue	2,437,331	(1,499,201)	4,757,098
Income taxes paid—net	(337,299)	(297,767)	(363,548)
Other operating activities—net	104,575	420,231	(382,082)
<b>Net cash and cash equivalents provided by (used in) operating activities</b>	<b>3,740,599</b>	<b>(1,912,325)</b>	<b>7,802,184</b>
<b>Investing Activities:</b>			
Purchases of financial assets at fair value through profit or loss and available-for-sale financial assets	(19,640,194)	(25,968,442)	(34,878,497)
Proceeds from sale of financial assets at fair value through profit or loss and available-for-sale financial assets	13,460,988	22,597,455	27,710,948
Proceeds from maturities of financial assets at fair value through profit or loss and available-for-sale financial assets	6,604,279	6,072,497	5,429,814
Purchases of held-to-maturity investments	—	(266,243)	—
Proceeds from maturities of held-to-maturity investments	1,093,887	1,394,921	1,102,109
Acquisitions of subsidiaries and businesses, net of cash and cash equivalents acquired	(199,356)	2,249,594	(58)
Investments in associates and joint ventures	(16,494)	(62,334)	(101,181)
Proceeds from sale of investments in associates and joint ventures	14,696	762	5,470
Purchases of property, plant and equipment, and investment properties	(491,444)	(529,151)	(572,984)
Purchases of intangible assets	(145,001)	(158,888)	(144,404)
Proceeds from sale of property, plant and equipment, investment properties and intangible assets	169,027	148,650	187,463
Other investing activities—net	1,192	6,697	(66,438)
<b>Net cash and cash equivalents provided by (used in) investing activities</b>	<b>851,580</b>	<b>5,485,518</b>	<b>(1,327,758)</b>
<b>Financing Activities:</b>			
Proceeds from issuance of subordinated borrowings	—	18,000	40,011
Redemption of subordinated borrowings	(11,000)	(40,262)	(5,000)
Proceeds from issuance of subordinated bonds	244,315	276,949	314,927
Redemption of subordinated bonds	(371,640)	(186,785)	(288,274)
Redemption of preferred securities	(86,887)	(142,000)	(124,500)
Proceeds from issuance of other equity instruments	149,887	299,895	—
Dividends paid to shareholders of Sumitomo Mitsui Financial Group, Inc.	(205,078)	(211,952)	(170,918)
Dividends paid to non-controlling interest shareholders	(65,860)	(76,744)	(77,970)
Coupons paid to other equity instruments holders	(7,929)	(2,773)	—
Purchase of treasury stock and proceeds from sale of treasury stock—net	179,657	(137)	(143)
Purchase of other equity instruments and proceeds from sale of other equity instruments—net	(102)	—	—
Transactions with non-controlling interest shareholders—net	386	156	(479)
<b>Net cash and cash equivalents used in financing activities</b>	<b>(174,251)</b>	<b>(65,653)</b>	<b>(312,346)</b>
Effect of exchange rate changes on cash and cash equivalents	(300,075)	(489,331)	748,432
<b>Net increase of cash and cash equivalents</b>	<b>4,117,853</b>	<b>3,018,209</b>	<b>6,910,512</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>42,126,966</b>	<b>39,108,757</b>	<b>32,198,245</b>
<b>Cash and cash equivalents at end of period</b>	<b>¥ 46,244,819</b>	<b>¥ 42,126,966</b>	<b>¥ 39,108,757</b>
<b>Net cash and cash equivalents provided by (used in) operating activities includes:</b>			
Interest and dividends received	¥ 2,025,371	¥ 1,996,686	¥ 1,913,148
Interest paid	484,362	421,765	355,253

The accompanying notes are an integral part of the Consolidated Financial Statements.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1 GENERAL INFORMATION

Sumitomo Mitsui Financial Group, Inc. (“SMFG”) was established on December 2, 2002, as a holding company for Sumitomo Mitsui Banking Corporation (“SMBC”) and its subsidiaries through a statutory share transfer (*kabushiki-iten*) of all of the outstanding equity securities of SMBC in exchange for SMFG’s newly issued securities. SMFG is a joint stock corporation with limited liability (*Kabushiki Kaisha*) incorporated under the Companies Act of Japan (“Companies Act”). Upon the formation of SMFG and the completion of the statutory share transfer, SMBC became a direct, wholly owned subsidiary of SMFG. SMFG has a primary listing on the Tokyo Stock Exchange (First Section), with further listing on the Nagoya Stock Exchange (First Section). SMFG’s American Depositary Shares are listed on the New York Stock Exchange.

SMFG and its subsidiaries (the “SMFG Group”) offer a diverse range of financial services, including commercial banking, leasing, securities, consumer finance and other services.

The accompanying consolidated financial statements have been authorized for issue by the Management Committee on June 23, 2017.

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the fiscal years presented, unless otherwise stated.

#### **Basis of Preparation**

##### *Compliance with International Financial Reporting Standards*

The consolidated financial statements of the SMFG Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

##### *Basis of measurement*

The consolidated financial statements have been prepared under the historical cost basis except for the following:

- trading assets and liabilities are measured at fair value;
- derivative financial instruments are measured at fair value;
- financial assets at fair value through profit or loss are measured at fair value;
- available-for-sale financial assets are measured at fair value; and
- liabilities and the assets recognized in consolidated statement of financial position in respect of defined benefit plans are the present value of the defined benefit obligation less the fair value of plan assets.

##### *Functional and presentation currency*

The consolidated financial statements are presented in Japanese yen, which is also SMFG’s functional currency. All financial information presented in Japanese yen has been rounded to the nearest million, except as otherwise indicated.

### ***Critical accounting estimates and judgments***

The preparation of the consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the accounting policies. Actual results may differ from these estimates. The notes to the consolidated financial statements set out areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the consolidated financial statements, such as allowance for loan losses (Notes 10, 32), fair value of financial instruments (Note 43), impairment of available-for-sale financial assets (Notes 9, 32), impairment of goodwill (Note 14), provision for interest repayment (Note 20), retirement benefits (Note 23) and deferred tax assets (Note 22).

Refer to Note 3 “Critical Accounting Estimates and Judgments” for further information.

### **New and Amended Accounting Standards Adopted by the SMFG Group**

During the fiscal year ended March 31, 2017, a number of amendments to standards have become effective; however, they have not resulted in any material changes to the SMFG Group’s accounting policies.

### **Consolidation**

#### ***Subsidiaries***

Subsidiaries are all entities controlled by the SMFG Group. The SMFG Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The SMFG Group considers all facts and circumstances whether it controls an entity.

Where the relevant activities are directed through voting or similar rights, the SMFG Group considers that it controls an entity if it has the existing rights that give it the current ability to direct the operating and financing policies of the entity, in general by having a shareholding of more than 50% of the voting rights. The existence and effect of potential voting rights that are deemed to be substantive are taken into account when assessing whether the SMFG Group controls another entity.

Where the voting rights are not the dominant factor in deciding who controls the entity, the assessment of control is more complex and requires greater use of judgment. The SMFG Group assesses whether it controls an entity considering all facts and circumstances, such as the purpose and design of the entity, the relevant activities and how to make decisions about those activities.

The SMFG Group also determines whether it is acting as an agent or a principal in assessing whether it has control of another entity. An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties and therefore does not control the entity. To make such judgments, the SMFG Group considers the overall relationship, especially all of the following factors: the scope of its decision-making authority over the entity, the rights held by other parties, the remuneration to which it is entitled in accordance with the remuneration agreement, and its exposure to variability of returns from other interests that it holds in the entity.

The SMFG Group reassesses whether it controls an entity if facts and circumstances indicate that there are changes to one or more of the elements of control.

Subsidiaries are fully consolidated from the date on which the SMFG Group obtains control. They are deconsolidated from the date on which the SMFG Group loses control.

The acquisition method is used to account for the business combinations including the acquisition of subsidiaries by the SMFG Group. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred, the liabilities

incurred and the equity interests issued. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The SMFG Group's previously held equity interest in the acquiree is remeasured at fair value at the acquisition date and any gain or loss is recognized in profit or loss. For each business combination, the SMFG Group measures any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The excess of the aggregate of the consideration transferred, the amount of any non-controlling interest and the acquisition-date fair value of the SMFG Group's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed is recorded as goodwill in the consolidated statement of financial position. If the aggregate of the consideration transferred, the amount of any non-controlling interest and the acquisition-date fair value of the SMFG Group's previously held equity interest in the acquiree is less than the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, the difference is recognized immediately in the consolidated income statement.

Inter-company transactions, balances and unrealized gains on transactions between the SMFG Group companies are eliminated on consolidation. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the SMFG Group.

#### *Non-controlling interests*

Changes in the SMFG Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Interests in the equity of subsidiaries not attributable to the SMFG Group are reported in the consolidated statement of financial position as a separate component of equity as non-controlling interests. Profits or losses attributable to non-controlling interests are separately reported in the consolidated income statement.

#### *Associates and joint ventures*

An associate is an entity over which the SMFG Group has significant influence, but does not control the financial and operating policy decisions of the entity. Significant influence is generally presumed to exist when the SMFG Group holds 20% or more, but less than 50%, of the voting rights.

Entities that are jointly controlled by more than one party, including the SMFG Group, may be determined to be a joint venture.

The SMFG Group accounts for investments in associates and joint ventures using the equity method from the date on which they become associates or joint ventures. The SMFG Group discontinues the use of the equity method from the date on which the SMFG Group ceases to have significant influence or joint control over the investees.

Under the equity method, the SMFG Group's investments in associates and joint ventures are initially recognized at cost. The carrying amount of the investments are subsequently increased or decreased to recognize the SMFG Group's share of the post-acquisition profit or loss of the associate or joint venture and other movements included directly in the equity of the associate or joint venture. The SMFG Group's share of the results of associates and joint ventures is based on the financial statements of its associates and joint ventures, adjusted to conform with the accounting policies of the SMFG Group. Profits on transactions between the SMFG Group and its associates and joint ventures are eliminated to the extent of the SMFG Group's interest in the associates or joint ventures. Losses are also eliminated to the extent of the SMFG Group's interest in the associates or joint ventures unless the transaction provides evidence of impairment in the asset transferred.

The carrying amounts of the investments in associates and joint ventures include goodwill (net of any accumulated impairment loss) arising on the acquisition of the interests in the entities. Because goodwill arising on the acquisition of the interest in an associate or joint venture is not separately recognized, it is not tested for impairment separately. Instead, the entire carrying amount of the investment in an associate or joint venture is tested for impairment as a single asset by comparing its recoverable amount, which is the higher of value in use and fair value less costs to sell, with its carrying amount, whenever there is any objective evidence that the investment is impaired. An impairment loss recognized in prior periods for the investment is reversed only if there has been a change in the estimates used to determine the recoverable amount of the investment since the last impairment loss was recognized. If this is the case, the carrying amount of the investment is increased to its recoverable amount. That increase is a reversal of an impairment loss.

When the SMFG Group's share of losses in an associate or joint venture exceeds the SMFG Group's carrying amount of the investment, the SMFG Group does not recognize further losses, unless it has a binding obligation or has made payments on behalf of the entity.

### **Segment Reporting**

The SMFG Group determines its operating segments based on the management approach, which requires operating segments to be identified on the basis of internal reports about components of the entity that are regularly reviewed by management, in order to allocate resources to a segment and to assess its performance.

### **Foreign Currency Translation**

Items included in the financial statements of each of the SMFG Group companies are measured using the currency of the primary economic environment in which the company operates ("the functional currency"). The consolidated financial statements are presented in Japanese yen, which is also SMFG's functional currency.

#### ***Transactions and balances***

Foreign currency transactions that are denominated or settled in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are translated using the exchange rate at the end of the reporting period. Foreign exchange gains and losses resulting from the retranslation and settlement of monetary items are recognized in the consolidated income statement. Non-monetary items that are measured at fair value in a foreign currency are translated into the functional currency using the exchange rate at the date the fair value is determined. Translation differences on non-monetary items, such as equity instruments classified as available-for-sale financial assets, are not included in the consolidated income statement but are recognized directly in equity. Non-monetary items that are measured at historical cost in a foreign currency are translated into the functional currency using the exchange rate at the date of the initial transaction.

#### ***Foreign operations***

The assets and liabilities of foreign operations are translated into the presentation currency of the SMFG Group using the exchange rate at the end of the reporting period, and their income statements are translated using the exchange rates at the dates of the transactions or average exchange rates where these approximate to actual rates.

The exchange differences arising on the translation of a foreign operation are included in other comprehensive income within equity and subsequently included in profit or loss on full or partial disposal of the operation.

## **Financial Assets**

At initial recognition, the financial assets of the SMFG Group are classified into one of the following categories: trading assets, derivative financial instruments, financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets.

Regular way purchases and sales of trading assets, derivative financial instruments, financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets are recognized on the trade date—the date on which the SMFG Group commits to purchase or sell the assets.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the SMFG Group has transferred substantially all the risks and rewards of ownership at a consolidated level. The SMFG Group consolidates all subsidiaries in accordance with IFRS 10 “Consolidated Financial Statements” before determining derecognition of financial assets under IAS 39 “Financial Instruments: Recognition and Measurement.”

### ***Trading assets***

Financial assets are classified as held for trading and included in “Trading assets” in the consolidated statement of financial position, if they are acquired principally for the purpose of selling in the near term or if they are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Trading assets are initially recognized at fair value with transaction costs being recognized in the consolidated income statement, and subsequently measured at fair value. Gains and losses arising from changes in the fair values of trading assets are included in “Net trading income” in the consolidated income statement.

### ***Derivative financial instruments***

Derivatives are also classified as held for trading and included in “Derivative financial instruments” in the consolidated statement of financial position. The SMFG Group does not apply hedge accounting under IFRS. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivatives are initially recognized at fair value with transaction costs being recognized in the consolidated income statement, and subsequently measured at fair value. Gains and losses arising from changes in the fair values of derivatives are included in “Net trading income” in the consolidated income statement.

The derivative component of a hybrid instrument containing both a derivative and non-derivative component (“host contract”) is referred to as an embedded derivative. Certain embedded derivatives are accounted for as separate derivatives, when their economic characteristics and risks are not closely related to those of the host contract and the hybrid instrument is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value and are presented in the consolidated statement of financial position together with the host contract.

### ***Financial assets at fair value through profit or loss***

Financial assets, other than those held for trading, are classified as financial assets at fair value through profit or loss and are included in “Financial assets at fair value through profit or loss” in the consolidated statement of financial position, if they meet one of the following criteria, and are so designated by management:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency;
- a group of financial assets is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy; or
- the instrument contains one or more embedded derivatives unless (a) the embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract or (b) it is clear with little or no analysis that separation is prohibited.

In addition, the SMFG Group classifies the entire hybrid instrument at fair value through profit or loss when the SMFG Group is required to separate an embedded derivative from its host contract, but is unable to measure the embedded derivative separately either at acquisition or at the end of a subsequent reporting period. Financial assets at fair value through profit or loss are initially recognized at fair value with transaction costs being recognized in the consolidated income statement, and subsequently measured at fair value. Gains and losses arising from changes in the fair value of such financial assets are included in “Net income from financial assets at fair value through profit or loss” in the consolidated income statement.

### ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the SMFG Group intends to sell immediately or in the near term, which are classified as held for trading, and those that the SMFG Group upon initial recognition designates as at fair value through profit or loss;
- those that the SMFG Group upon initial recognition classifies as available-for-sale; or
- those for which the SMFG Group may not recover substantially all of its initial investment, other than because of credit deterioration.

The financial assets classified as loans and receivables are mainly included in “Loans and advances” in the consolidated statement of financial position. Loans and receivables are initially recognized at fair value plus directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method.

When the SMFG Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognized and presented within “Loans and advances” in the consolidated statement of financial position.

### ***Held-to-maturity investments***

Held-to-maturity investments are non-derivative financial assets quoted in an active market with fixed or determinable payments and fixed maturities that the SMFG Group has the positive intention and ability to hold to maturity. If the SMFG Group were to sell other than an insignificant amount of held-to-maturity investments, the remaining investments in this category would be reclassified as available-for-sale financial assets. Held-to-maturity investments are initially recognized at fair value plus directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method.

### ***Available-for-sale financial assets***

Available-for-sale financial assets are non-derivative financial assets that are classified as available-for-sale at initial recognition or are not classified into any of the other categories described above. Available-for-sale financial assets are initially recognized at fair value plus directly attributable transaction costs, and are subsequently measured at fair value.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized in other comprehensive income, until they are derecognized or impaired. At that time, the cumulative gain or loss previously recognized in other comprehensive income is recognized in the consolidated income statement. However, interest income calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognized in the consolidated income statement. Dividends on available-for-sale equity instruments are recognized in the consolidated income statement when the entity’s right to receive payment is established.

## **Financial Liabilities**

Financial liabilities, except for held for trading and derivatives, are initially recognized at fair value net of transaction costs incurred, including premiums, discounts and issuance costs, and subsequently measured at amortized cost based on the effective interest method. Financial liabilities carried at amortized cost are mainly “Deposits,” “Borrowings,” and “Debt securities in issue” included in the consolidated statement of financial position.

Financial liabilities are classified as held for trading if they are incurred principally for the purpose of repurchasing in the near term or if they are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Financial liabilities held for trading and derivatives are mainly included in “Trading liabilities” and “Derivative financial instruments,” respectively, in the consolidated statement of financial position. Trading liabilities and derivatives are initially measured at fair value with transaction costs being recognized in the consolidated income statement, and subsequently measured at fair value. Gains and losses arising from changes in the fair values of such trading liabilities and derivatives are included in “Net trading income” in the consolidated income statement.

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished.

## **Hedge Accounting**

The SMFG Group does not apply hedge accounting under IAS 39.

## **Offsetting Financial Instruments**

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position, only if the SMFG Group currently has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously. In all other situations, they are presented on a gross basis.

## **Fair Value Measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining the fair value, the SMFG Group gives the highest priority to a quoted price in an active market for identical assets or liabilities. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no active market for the asset or liability, the SMFG Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure the fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. In cases where the SMFG Group manages a group of financial assets and financial liabilities on the basis of its net credit exposure, the fair value of the group of financial assets and financial liabilities is measured on the basis of the price that would be received to sell a net long position (i.e., an asset) or paid to transfer a net short position (i.e., a liability) for the credit risk exposure provided that certain criteria set forth in IFRS 13 “Fair Value Measurement” are met. Details of fair value measurement are described in Note 43 “Fair Value of Financial Assets and Liabilities.”

## **Recognition of Deferred Day One Profit and Loss**

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (i.e., the fair value of the consideration given or received). However, if the fair value at initial recognition is not evidenced by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the difference between the fair value at initial recognition and the transaction price, commonly referred to as “day one profit and loss,” is not recognized as a gain or loss but adjusted to be deferred. The SMFG Group did not have any significant deferred day one profit and loss for the fiscal years ended March 31, 2017 and 2016.

## **Repurchase and Reverse Repurchase Agreements, and Securities Borrowing and Lending Agreements**

In the ordinary course of business, the SMFG Group lends or sells securities under agreements to repurchase them at a predetermined price on a future date (“repos”). Since substantially all the risks and rewards are retained by the SMFG Group, the securities remain on the consolidated statement of financial position and a liability is recorded in respect of the consideration received. On the other hand, the SMFG Group borrows or purchases securities under agreements to resell them at a predetermined price on a future date (“reverse repos”). Since the SMFG Group does not retain the risks and rewards of ownership, these transactions are treated as collateralized loans and the securities are not included in the consolidated statement of financial position.

The difference between the sale and purchase price is accrued over the life of the transactions. Securities lent to counterparties remain on the consolidated statement of financial position. Securities borrowed are not recognized in the consolidated statement of financial position, unless these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value and any subsequent gain or loss is included in “Net trading income” in the consolidated income statement.

For the fiscal years ended March 31, 2017 and 2016, there were no transactions pursuant to repurchase agreements, securities lending transactions or other transactions involving the transfer of financial assets with an obligation to repurchase such transferred assets that were treated as sales and hence derecognized for accounting purposes.

## **Impairment of Financial Assets**

### *Loans and advances and held-to-maturity investments*

At the end of each reporting period, the SMFG Group assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the SMFG Group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of an issuer or an obligor;
- a default or delinquency in interest or principal payments;
- restructuring of a financial asset by the SMFG Group due to the borrower’s financial difficulties on terms that the SMFG Group would not otherwise consider;
- indications that a borrower or issuer will enter bankruptcy;
- disappearance of an active market for a security because of the borrower’s financial difficulties; and
- other observable data relating to a group of assets, such as adverse changes in the payment status of borrowers or issuers in the group, or national or local economic conditions that correlate with defaults in the group.

The SMFG Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the SMFG Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in the collective assessment of impairment.



The allowance for individually significant impaired financial assets is measured by the discounted cash flow (“DCF”) method, which is used to calculate the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. If financial assets have a variable interest rate, the discount rate for measuring any impairment loss is the effective interest rate determined under the contract, for the current period. The estimated future cash flows are individually calculated taking into account factors including historical loss information, the appropriateness of the borrower’s business plan or operational improvement plan, the status of progress of its plan, the overall support from financial institutions, and the realizable value of any collateral held.

The collective allowance for financial assets is classified into two types: (1) the allowance for impaired financial assets that are not individually significant, and (2) the allowance for non-impaired financial assets, which reflects incurred but not yet identified (“IBNI”) losses for the period between the impairment occurring and the loss being identified. The collective allowance is estimated by applying historical loss experience to groups of homogenous loans. The historical loss experience data includes the number of borrowers for whom objective evidence of impairment has been identified for the most recent rolling one-year period, and the amount ultimately recovered from impaired financial assets. The SMFG Group has collected and accumulated historical data on amounts ultimately recovered from impaired financial assets. The homogeneous groups are determined on the basis of similar credit risk characteristics. For every group, the SMFG Group’s grading processes are established considering asset type, industry, geographical location, collateral type, past-due status and other relevant characteristics (see Note 45 “Financial Risk Management”). These characteristics are relevant to the estimation of future cash flows for groups of such assets as being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated. Historical loss experience is adjusted on the basis of current observable data, including bankruptcy trends after the occurrence of significant events which had a negative effect on the global economy and the economies in which a large portion of the SMFG Group’s assets are located, to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

The carrying amount of the asset is reduced by the impairment loss either directly or through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor’s credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in “Impairment charges on financial assets” in the consolidated income statement.

If a financial asset is determined to be uncollectible, it is written off against the related allowance account. Uncollectible financial assets are normally written off when there is no expectation of further recovery after any collateral is foreclosed and the amount of the loss has been determined. Those assets primarily include loans for borrowers that have been legally or formally declared bankrupt and borrowers that may not have been legally or formally declared bankrupt but are essentially bankrupt.

Loans and advances that would otherwise be past due or impaired, but whose terms have been renegotiated without providing any financial concessions, are not classified as impaired loans and advances as the terms of the renegotiated loans and advances do not result in a decrease in the net present value of the loan discounted at its original effective interest rate. The collective allowance is estimated for these loans and advances by including them in homogenous groups on the basis of applying the SMFG Group’s grading process, taking into account the renegotiation and their consequent higher risk status. These loans and advances are continually assessed for impairment until maturity or derecognition.

In addition, provisions for loan commitments are calculated where it is probable that the SMFG Group will incur a loss and recognized in other provisions (see Note 20 “Provisions”).

### *Available-for-sale financial assets*

At the end of each reporting period, the SMFG Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity instruments classified as available-for-sale, a significant or prolonged decline in the fair value of the instruments below cost is also considered in determining whether the assets are impaired. In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as for loans and advances and held-to-maturity investments. If any objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss—measured as the difference between the cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss—is removed from equity and recognized in the consolidated income statement.

Impairment losses recognized in the consolidated income statement on equity instruments classified as available-for-sale are not reversed through the consolidated income statement. For debt instruments classified as available-for-sale, if the fair value recovers in a subsequent period and it can be objectively associated with an event occurring after the impairment loss was recognized in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

### **Property, Plant and Equipment**

All property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Additions and subsequent expenditures are capitalized only to the extent that they enhance the future economic benefits expected to be derived from the assets. Repairs and maintenance costs are expensed as incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Buildings: 7–50 years;
- Leased assets: the shorter of the lease term and the estimated useful life, which is generally 5–20 years; and
- Assets for rent (including assets for aircraft leasing business) and others: 2–40 years.

The residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount. These are included in “Other income” and “Other expenses” in the consolidated income statement.

### **Intangible Assets**

#### *Goodwill*

Goodwill represents the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest and the acquisition-date fair value of the SMFG Group’s previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, and is initially recognized at the date of acquisition. Goodwill is allocated to cash-generating units for the purpose of impairment testing. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflows from other assets or groups of assets. Impairment testing is performed at least annually and whenever there is an indication that the cash-generating unit may be impaired. When the SMFG Group disposes of all or part of a cash-generating unit to which goodwill is allocated, the goodwill associated with the cash-generating unit is included in the carrying amount of the cash-generating unit when determining the gain or loss on disposal.

### *Software*

Purchased software is carried at cost less accumulated amortization and accumulated impairment losses, if any.

Expenditure on internally generated software is recognized as an asset if the SMFG Group can demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and it can reliably measure the costs to complete the development. Internally generated software is carried at capitalized cost less accumulated amortization and accumulated impairment losses, if any. Costs associated with maintaining software are expensed as incurred.

Software is amortized using the straight-line method over the estimated useful life, which is generally 5 to 10 years.

### *Contractual customer relationships and trademarks*

Contractual customer relationships and trademarks acquired in a business combination are recognized at fair value at the acquisition date. Contractual customer relationships and trademarks are carried at cost less accumulated amortization or impairment losses, if any. Contractual customer relationships and trademarks are amortized using the straight-line method over their estimated useful lives, which are generally 10 to 20 years.

### *Other intangible assets*

Other intangible assets primarily consist of leasehold rights. They are recognized only when the SMFG Group legally obtains the rights and can reliably measure the fair value. Leasehold rights have an indefinite useful life and they are not amortized but are tested for impairment annually.

### **Impairment of Non-Financial Assets**

Non-financial assets are reviewed for impairment at the end of each reporting period and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized in the consolidated income statement if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is estimated as the higher of the asset's fair value less costs to sell and value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. In addition, irrespective of whether there is any indication of impairment, intangible assets that have an indefinite useful life are tested for impairment annually.

For the purposes of conducting impairment reviews, assets are grouped into cash-generating units to which the assets belong. Non-financial assets other than impaired goodwill are reviewed for possible reversal of the impairment loss at the end of each reporting period. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

### **Leases**

#### *As lessee*

A lease agreement in which the lessor does not transfer to the lessee substantially all the risks and rewards of ownership of assets is classified as an operating lease. The leases entered into by the SMFG Group as a lessee are primarily operating leases. Operating lease payments, net of lease incentives received from the lessor, are recognized in the consolidated income statement on a straight-line basis over the lease term.

A lease agreement in which the lessor transfers to the lessee substantially all the risks and rewards of ownership of assets, with or without ultimate legal title, is classified as a finance lease. For finance leases, the SMFG Group initially recognizes the leased asset at the lower of the fair value of the asset or the present value of the minimum lease payments. Subsequent to initial recognition, assets are accounted for in accordance with the accounting policy applicable to those assets. The corresponding liability to the lessor is recognized as a lease obligation within “Borrowings” in the consolidated statement of financial position. Interest expense is recognized over the term of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining balance of the liability.

#### *As lessor*

When the SMFG Group acts as a lessor in an operating lease, the assets for rent are included in “Property, plant and equipment” in the consolidated statement of financial position and are depreciated over their expected useful lives on a basis consistent with similar assets in property, plant and equipment. Income from operating leases (net of any incentives given to the lessee) is recognized on a straight-line basis over the lease term and included in “Other income” in the consolidated income statement. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased assets and recognized as an expense on a straight-line basis over the lease term.

When the SMFG Group is a lessor in a finance lease, the leased assets are derecognized and the present value of the future lease payments is recognized as a lease receivable within “Loans and advances” in the consolidated statement of financial position. The difference between the gross receivables, i.e., undiscounted future cash flows, and the present value of the receivables is recognized as unearned finance income. Finance income is recognized over the lease term based on a pattern reflecting a constant periodic rate of return on the net investment in the finance lease.

#### *Sale and leaseback*

For sale and leaseback transactions leading to an operating lease, and the transaction took place at fair value, any profit or loss is recognized immediately. If the sale price is at or below fair value, any profit or loss is recognized immediately. However, if the loss is compensated for by future rentals at a below market price, the loss is deferred and amortized over the period that the asset is expected to be used. If the sale price is above fair value, any profit is deferred and amortized over the useful life of the asset. If the fair value of the asset is less than the carrying value of the asset at the date of transaction, that difference is recognized immediately as a loss on the sale.

### **Cash and Cash Equivalents**

For the purposes of the consolidated statement of cash flows, cash and cash equivalents include cash on hand, demand deposits, and other short-term highly liquid financial assets with original maturities of three months or less, which are subject to insignificant risk of changes in their fair value.

### **Provisions**

A provision is recognized if, as a result of a past event, the SMFG Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### **Financial Guarantee Contracts**

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the

terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities. Financial guarantees are initially recognized at fair value on the date the guarantee is given.

Subsequent to initial recognition, the SMFG Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortization calculated to recognize in the consolidated income statement the fee income earned over the guarantee period, and the best estimate of the expenditure required to settle any financial obligation arising at the end of the reporting period. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management.

Any increase in the liability relating to financial guarantee contracts is included in "Other expenses" in the consolidated income statement.

## **Employee Benefits**

The SMFG Group operates various retirement benefit plans and other employee benefit plans.

### ***Retirement benefits***

The SMFG Group has defined benefit plans, such as defined benefit pension plans and lump-sum severance indemnity plans, and defined contribution plans.

#### ***Defined benefit plans***

The liabilities and the assets recognized in the consolidated statement of financial position in respect of defined benefit plans are the present value of the defined benefit obligation less the fair value of plan assets.

The present value of the defined benefit obligation is calculated annually by qualified actuaries. In calculating the present value of the defined benefit obligations, the related current service cost, and past service cost, the SMFG Group attributes the retirement benefits to years of service under the benefit formula. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using market yields of AA credit-rated corporate bonds that have terms to maturity approximating those of the related obligations. In cases where there is no deep market in corporate bonds with a sufficiently long maturity to match the estimated maturity of the benefit payments, the SMFG Group uses current market rates of the appropriate term to discount shorter term payments and estimates the discount rates for longer maturities by extrapolating current market rates along the yield curve.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in the year, and return on plan assets excluding interest income are recognized in other comprehensive income and are never reclassified to profit or loss.

Past service costs are recognized immediately in the consolidated income statement.

When the calculations above result in a benefit to the SMFG Group, the recognized asset is limited to the present value of any economic benefits available in the form of any refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to the SMFG Group if it is realizable during the life of the plan or on settlement of the plan obligations.

#### ***Defined contribution plans***

Contributions to defined contribution plans are recognized as an expense in the consolidated income statement when they are due.

### ***Other long-term employee benefits***

The SMFG Group's net obligation with respect to long-term employee benefits other than retirement benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and the fair value of any related assets is deducted. The discount rates are market yields of AA credit-rated corporate bonds that have terms to maturity approximating those of the related obligations. The calculation of obligations is performed using the projected unit credit method. Any actuarial gains or losses and past service costs are recognized in the consolidated income statement in the period in which they arise.

### ***Short-term employee benefits***

Short-term employee benefits, such as salaries, paid absences and other benefits are accounted for on an accrual basis over the period in which employees have provided services. Bonuses are recognized to the extent that the SMFG Group has a present obligation to its employees that can be measured reliably.

### **Income Tax**

Income tax expense comprises current and deferred taxes. Income tax expense is recognized in the consolidated income statement except for that related to items recognized directly in equity. In such case, the income tax expense is recognized in equity.

Current tax is the expected tax payable or receivable on the taxable profit or loss for the fiscal year.

Deferred taxes are recognized, using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred taxes are determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax assets are realized or the deferred tax liabilities are settled.

Deferred tax assets principally arise from tax losses carried forward, impairment of investment securities and loans, and the allowance for loan losses.

Deferred taxes are not recognized for the following temporary differences: (a) the initial recognition of goodwill; (b) the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and (c) the temporary differences associated with investments in subsidiaries, associates, and joint ventures, when the parent investor is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets relating to tax losses carried forward and deductible temporary differences are recognized, only to the extent that it is probable that future taxable profit will be available against which the tax losses carried forward and the deductible temporary differences can be utilized.

### **Debt and equity securities in issue**

On initial recognition, financial instruments issued by the SMFG Group are classified in accordance with the substance of the contractual agreement as financial liabilities where the contractual arrangement results in the SMFG Group having an obligation to either deliver cash or another financial asset to the holder, or to satisfy the obligation other than by delivering a fixed number of equity shares in exchange for a fixed amount of cash or another financial asset. The instruments or their components are classified as equity where they do not meet the definition of a liability and show evidence of a residual interest in the entity's assets after deducting all of its liabilities. Compound financial instruments that contain both liability and equity elements are accounted for

separately with the equity component being assigned the residual amount after deducting from the entire value of the compound financial instrument the fair value of the liability component which has been determined separately.

## **Shareholders' Equity**

### *Stock issuance costs*

Incremental costs directly attributable to the issuance of new shares or options including those issued as a result of a business combination transaction are deducted from the proceeds and shown in equity, net of tax.

### *Dividends on common stock and preferred stock*

Dividends on common stock and preferred stock are recognized in equity in the period in which they are approved by the shareholders. Dividends for the fiscal year that are declared after the reporting period are described in Note 40 "Dividends Per Share."

### *Treasury stock*

Where SMFG or any other member of the Group companies purchase SMFG's common or preferred stock, the consideration paid is deducted from equity as treasury stock until they are cancelled or sold. No gain or loss is recognized on the purchase, sale, or cancellation of SMFG's own equity instruments and the consideration paid or received is recognized in equity.

## **Interest Income and Expense**

Interest income and expense for all financial instruments, except for those classified as held for trading and financial assets at fair value through profit or loss, are recognized in "Interest income" and "Interest expense" in the consolidated income statement using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that discounts the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the SMFG Group estimates cash flows, considering the contractual terms of the financial instrument but not including future credit losses. The calculation includes fees and points paid or received between parties to the contract that are an integral part of the effective interest rate of the financial instrument, transaction costs and other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. For financial assets measured at amortized cost, the interest rate is the original effective interest rate.

## **Fee and Commission Income**

Fee and commission income includes fee and commission income arising from a diverse range of services that the SMFG Group provides to its customers. Fee and commission income can be divided into two categories: fee and commission income from providing transaction services, and fee and commission income earned from services that are provided over a certain period of time. Fee and commission income earned from providing transaction services is recognized when the service has been completed or the event has occurred. This fee and commission income includes fees on funds transfer and collection services, service charges from deposit

accounts, fees and commissions on the securities business, underwriting fees, brokerage fees, and fee and commission income from other services. Fee and commission income earned from services over a period of time is recognized over that service period. This fee and commission income includes fees on credit-related businesses, investment fund businesses, and fee and commission income from other services. Loan commitment fees, together with the related direct cost, for loans that are likely to be drawn down are deferred and recognized as an adjustment to the effective interest rate on the loan. Loan commitment fees are recognized over the term of the commitment period when it is unlikely that a loan will be drawn down.

### **Net Trading Income**

Net trading income consists of margins made on market-making and customer business, as well as changes in fair value of trading assets and liabilities and derivative financial instruments, caused by movements in interest rates, exchange rates, equity prices and other market variables. It also includes net interest and dividend income on trading assets and liabilities.

### **Net Income from Financial Assets at Fair Value through Profit or Loss**

Net income from financial assets at fair value through profit or loss includes all gains and losses arising from changes in the fair value of these financial assets and sales of such assets, and interest and dividend income on these financial assets.

### **Net Investment Income**

Net investment income includes gains and losses on the disposal of available-for-sale financial assets, and dividends from available-for-sale equity instruments.

### **Earnings Per Share**

The SMFG Group presents basic and diluted earnings per share (“EPS”) data for its common stock. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the SMFG Group by the weighted average number of common stock outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common stock outstanding for the effects of all dilutive potential common stock including share options and other convertible instruments.

### **Recent Accounting Pronouncements**

The SMFG Group is currently assessing the impact of the following standards, amendments to standards, and interpretations that are not yet effective and have not been early adopted:

#### ***Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)***

In September 2014, the IASB issued the narrow-scope amendments to IFRS 10 and IAS 28 “Investments in Associates and Joint Ventures” to address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The effective date of applying the amendments was January 1, 2016 when they were originally issued, however, in December 2015, the IASB issued *Effective Date of Amendments to IFRS 10 and IAS 28* to remove the effective date and indicated that a new effective date will be determined at a future date when it has finalized revisions, if any, that result from its research project on the equity accounting. The SMFG Group is currently evaluating the potential impact that the adoption of the amendments will have on its consolidated financial statements.



### ***Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)***

In January 2016, the IASB issued narrow-scope amendments to IAS 12 “Income Taxes” to clarify the requirements on recognition of deferred tax assets for unrealized losses related to debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after January 1, 2017 and are not expected to have a material impact on the SMFG Group’s consolidated financial statements.

### ***Disclosure Initiative (Amendments to IAS 7)***

In January 2016, the IASB issued amendments to IAS 7 “Statement of Cash Flows,” which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes. The amendments are effective for annual periods beginning on or after January 1, 2017.

### ***IFRS 15 “Revenue from Contracts with Customers”***

In May 2014, the IASB published IFRS 15 “Revenue from Contracts with Customers” to establish principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contract with customers. IFRS 15 replaces IAS 18 “Revenue,” IAS 11 “Construction Contracts,” IFRIC 13 “Customer Loyalty Programmes” and other related interpretations. The core principle of IFRS 15 is to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also requires enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. The standard is effective for annual periods beginning on or after January 1, 2018. The SMFG Group is currently evaluating the potential impact that the adoption of the standard will have on its consolidated financial statements.

### ***IFRS 9 “Financial Instruments”***

In July 2014, the IASB published IFRS 9 “Financial Instruments,” which is the comprehensive standard to replace IAS 39. The standard contains the following new requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting, and is effective for annual periods beginning on or after January 1, 2018.

#### ***Classification and measurement***

The standard requires all financial assets to be classified into three categories, namely, amortized cost, fair value through other comprehensive income (“FVOCI”) and fair value through profit or loss (“FVPL”), based on the business model within which they are held and their contractual cash flow characteristics. A financial asset is measured at amortized cost if the asset is held within a business model whose objective is to hold the asset in order to collect contractual cash flows, and the asset’s contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (“SPPI”) on the principal amount outstanding. Financial assets are measured at FVOCI if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and SPPI requirements are met. Any financial assets that do not meet the criteria of amortized cost or FVOCI should be classified as FVPL, unless an entity makes an irrevocable election for non-trading equity instruments to be measured at FVOCI. Financial assets that would be otherwise measured at amortized cost or FVOCI can be designated at recognition to be measured at FVPL in order to eliminate or significantly reduce an accounting mismatch.

The standard maintains most of the requirements in IAS 39 regarding the classification and measurement of financial liabilities. However, with the new requirements, if an entity chooses to measure a financial liability at fair value, the amount of change in its fair value that is attributable to changes in the credit risk of that liability will be presented in other comprehensive income, rather than in profit or loss.

The SMFG Group conducted an initial assessment of business model and SPPI requirements to identify potential classification and measurement changes of financial assets in 2016. As a result of the assessment, the SMFG Group currently anticipates, with limited exceptions, that:

- Trading assets, derivative financial instruments and financial assets at fair value through profit or loss will be measured at FVPL;
- Available-for-sale debt instruments will be measured at FVOCI;
- Available-for-sale equity instruments will be measured at FVPL or designated as FVOCI; and
- Held-to-maturity investments and loans and advances will be measured at amortized cost.

The assessment should be updated because the standard requires that the business models be determined at the transition date, and the composition of financial assets may change. The SMFG Group will continue its assessment, taking into consideration the changes of business strategies and composition of financial assets, up to the initial application on April 1, 2018.

### *Impairment*

The standard introduces the expected credit loss (“ECL”) model, which is a new model for the recognition of impairment losses, to replace the incurred loss model in IAS 39. The impairment requirements apply to financial assets measured at amortized cost and FVOCI, lease receivables, certain loan commitments and financial guarantee contracts. Under the ECL model, an entity is required to account for expected credit losses from initial recognition of financial instruments and to recognize full lifetime expected losses on a timely basis. The ECL model will result in the recognition of impairment losses earlier than the incurred loss model.

At each reporting date, credit risk on a financial instrument should be assessed and a loss allowance should be measured for expected credit losses resulting from default events that are possible within the next 12 months, if the credit risk has not increased significantly since initial recognition (“Stage 1”). A loss allowance should be recognized at an amount equal to expected credit losses resulting from all possible default events over the expected life of the financial instrument for the financial assets which are assessed to have experienced a significant increase in credit risk (“Stage 2”) or for the credit-impaired financial assets (“Stage 3”). A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. These indicators are similar to those under IAS 39 including significant financial difficulty and default.

The standard requires that expected credit losses should be measured to reflect an unbiased and probability-weighted amount, the time value of money, and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. To meet these requirements, the SMFG Group is in the process of building ECL models by leveraging the probability of default (“PD”), loss given default (“LGD”) and exposure at default (“EAD”) used in the Basel III regulatory framework with adjustments where applicable. The SMFG Group anticipates that the allowance for financial assets under the ECL model in IFRS 9 will increase, since it is generally expected that both the allowance for financial assets measured at 12 months expected credit losses and lifetime expected credit losses will be more than that under the incurred loss model in IAS 39.

### *Hedge Accounting*

The standard introduces a new hedge accounting model, together with corresponding disclosures about risk management activity for those applying hedge accounting. The hedge accounting requirements in IFRS 9 align hedge accounting more closely with risk management and establish a more principle-based approach to hedge accounting.

### *Transition*

The standard is effective for annual periods beginning on or after January 1, 2018. The SMFG Group will apply the classification and measurement and impairment requirements retrospectively by adjusting the consolidated statement of financial position at the date of initial application, without any requirements to restate previous periods.

### ***Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)***

In June 2016, the IASB issued narrow-scope amendments to IFRS 2 “Share-based Payment” to clarify how to account for certain types of share-based payment transactions. The amendments are effective for annual periods beginning on or after January 1, 2018. The SMFG Group is currently evaluating the potential impact that the adoption of the amendments will have on its consolidated financial statements.

### ***Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)***

In September 2016, the IASB issued amendments to IFRS 4 “Insurance Contracts” to address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the replacement standard that the IASB is developing for IFRS 4. These concerns include temporary volatility in reported results. The amendments introduce two approaches. One is an approach for entities that issue insurance contracts. This is applicable only when an entity first applies IFRS 9. The other is an approach for entities whose activities are predominantly connected with insurance. This is effective for annual periods beginning on or after January 1, 2018. The SMFG Group is currently evaluating the potential impact that the adoption of the amendments will have on its consolidated financial statements.

### ***Annual Improvements to IFRSs 2014-2016 Cycle***

In December 2016, the IASB issued Annual Improvements to IFRSs 2014-2016 Cycle, which is a collection of amendments to three IFRSs. These are minor amendments that clarify, correct or remove redundant wordings in the Standards. These improvements include the amendments effective for annual periods beginning on or after January 1, 2017 and 2018 and are not expected to have a material impact on the SMFG Group’s consolidated financial statements.

### ***IFRIC Interpretation 22 “Foreign Currency Transactions and Advance Consideration”***

In December 2016, the IASB issued IFRIC Interpretation 22 “Foreign Currency Transactions and Advance Consideration” to clarify the date of the transaction for the purpose of determining the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency in accordance with IAS 21 “The Effects of Changes in Foreign Exchange Rates.” The interpretation is effective for annual periods beginning on or after January 1, 2018. The SMFG Group is currently evaluating the potential impact that the adoption of the interpretation will have on its consolidated financial statements.

### ***Transfers of Investment Property (Amendments to IAS 40)***

In December 2016, the IASB issued amendments to IAS 40 “Investment Property” to clarify the requirements on transfers to, or from, investment property when, and only when, there is a change in use. The amendments are effective for annual periods beginning on or after January 1, 2018. The SMFG Group is currently evaluating the potential impact that the adoption of the amendments will have on its consolidated financial statements.

### ***IFRS 16 “Leases”***

In January 2016, the IASB published IFRS 16 “Leases,” which sets out the principles for the recognition, measurement, presentation and disclosure of leases, replacing IAS 17 “Leases.” The standard introduces a single

lessee accounting model and eliminates the classification of leases as either operating leases or finance leases, requiring a lessee to recognize assets and liabilities. A lessor continues to classify its leases as operating leases or finance leases, and to account for them differently. The standard is effective for annual periods beginning on or after January 1, 2019. The SMFG Group is currently evaluating the potential impact that the adoption of the standard will have on its consolidated financial statements.

#### ***IFRIC 23 “Uncertainty over Income Tax Treatments”***

In June 2017, the IASB published IFRIC 23 “Uncertainty over Income Tax Treatments,” which clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. This interpretation adds to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. The interpretation is effective for annual periods beginning on or after January 1, 2019. The SMFG Group is currently evaluating the potential impact that the adoption of the interpretation will have on its consolidated financial statements.

#### ***IFRS 17 “Insurance Contracts”***

In May 2017, the IASB published IFRS 17 “Insurance Contracts,” which establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, replacing IFRS 4. IFRS 4 provided entities dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. IFRS 17 requires all insurance contracts to be accounted for in a consistent manner. Insurance obligations will be accounted for by using present values instead of historical cost. The standard is effective for annual periods beginning on or after January 1, 2021. The SMFG Group is currently evaluating the potential impact that the adoption of the standard will have on its consolidated financial statements.

### **3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

The consolidated financial statements are influenced by estimates and management judgment, which necessarily have to be made in the course of preparation of the consolidated financial statements. Estimates and judgments are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances, and which are continually evaluated.

#### **Allowance for Loan Losses**

Allowance for loan losses represents management’s estimate of the losses incurred in the loan portfolios at the end of each reporting period. Management exercises judgment in making assumptions and estimations when calculating the allowance for loan losses on both individually and collectively assessed loans.

The allowance for loan losses for individually significant impaired loans is estimated by management based on the expected future cash flows, taking into account factors such as historical loss information, the appropriateness of the borrower’s business plan or operational improvement plan, the status of progress of its plan, the overall support from financial institutions, and the realizable value of any collateral held. The allowance for loan losses for the remaining loans is collectively estimated by grouping financial assets into portfolios on the basis of similar credit risk characteristics and using the historical loss experience for these portfolios adjusted for the effect of the current economic environment. To assess the losses on the loan portfolios where loss events have occurred but not yet been identified, management develops assumptions and methodologies to estimate the loss identification period.

Management estimates and judgments may change from time to time as the economic environment changes or new information becomes available. Changes in these estimates and judgments will result in a different allowance for loan losses and may have a direct impact on impairment charges. Impairment charges on loans and

advances amounting to ¥141,457 million, ¥118,750 million and ¥79,552 million were recognized for the fiscal years ended March 31, 2017, 2016 and 2015, respectively. For additional information, refer to Note 10 “Loans and Advances” and Note 32 “Impairment Charges on Financial Assets.”

### **Fair Value of Financial Instruments**

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, inputs to valuation techniques are based on observable data with respect to similar financial instruments or by using models. Where observable inputs are not available, the fair value is estimated based on appropriate assumptions that a market participant would take into account. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed. The SMFG Group certifies significant valuation models before they are used, and calibrates them to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, inputs such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the fair values of these financial instruments. More details about the SMFG Group’s valuation techniques, significant unobservable inputs used in determining fair values and sensitivity analyses are given in Note 43 “Fair Value of Financial Assets and Liabilities.”

### **Impairment of Available-for-sale Financial Assets**

Available-for-sale financial assets are impaired if there is objective evidence of impairment as a result of loss events. The SMFG Group exercises judgment in determining whether there is objective evidence of occurrence of loss events, which result in a decrease in estimated future cash flows of the financial assets. The estimation of future cash flows also requires judgment. In the assessment of impairment of available-for-sale equity instruments, the SMFG Group also considers whether there has been a significant or prolonged decline in fair value below their cost. The determination of what is a significant or prolonged decline requires management judgment.

Impairment may occur when there is objective evidence of deterioration in the financial conditions of the investee, industry and sector performance, or changes in operating and financing cash flows. The determination of impairment in this respect also includes significant management judgment.

Management estimates and judgments may change from time to time based upon future events that may or may not occur and changes in these estimates and judgments could adversely affect the carrying amounts of available-for-sale financial assets. Impairment charges on available-for-sale financial assets totaled ¥71,510 million, ¥29,606 million and ¥10,586 million for the fiscal years ended March 31, 2017, 2016 and 2015, respectively. For additional information, refer to Note 9 “Investment Securities” and Note 32 “Impairment Charges on Financial Assets.”

### **Impairment of Goodwill**

Goodwill is tested for impairment on an annual basis or more frequently if events or changes in circumstances indicate that it may not be recoverable. If any such indication exists, then its recoverable amount is estimated. The process to determine the recoverable amount is inherently uncertain because such recoverable amount is determined based on a number of management estimates and judgments. The SMFG Group determines the recoverable amount using the estimated future cash flows, pre-tax discount rates, growth rates, and other factors. The estimation of future cash flows inherently reflects management judgments, even though such forecasts are prepared taking into account actual performance and external economic data. The pre-tax discount rates and growth rates may be significantly affected by market interest rates or other market conditions, which are beyond management’s control, and therefore significant management judgments are made to determine these assumptions. These management judgments are made based on the facts and circumstances at the time of the impairment test, and may vary depending on the situation and the time. Changes in management judgments may

result in different impairment test results and different impairment amounts recognized. For the fiscal years ended March 31, 2017, 2016 and 2015, impairment losses on goodwill were ¥74,616 million, ¥1,124 million and nil, respectively. For additional information, refer to Note 14 “Intangible Assets.”

### **Provision for Interest Repayment**

Provision for interest repayment represents management’s estimate of future claims for the refund of so-called “gray zone interest” (interest on loans in excess of the maximum rate prescribed by the Interest Rate Restriction Act (ranging from 15% to 20%) up to the 29.2% maximum rate permitted under the Act Regulating the Receipt of Contributions, Receipt of Deposits and Interest Rates), taking into account historical experience such as the number of customer claims for a refund, the amount of repayments and the characteristics of customers, and the length of the period during which claims are expected to be received in the future.

Management estimates and judgments may change from time to time as the legal environment and market conditions change or new information becomes available. Changes in these estimates and judgments could affect the balance of provision for interest repayment. Provision for interest repayment is recorded in provisions as a liability, and it totaled ¥157,333 million and ¥229,422 million at March 31, 2017 and 2016, respectively. For additional information, refer to Note 20 “Provisions.”

### **Retirement Benefits**

The SMFG Group has defined benefit plans such as defined benefit pension plans and lump-sum severance indemnity plans. The present value of the defined benefit obligation is calculated based on actuarial valuations that are dependent upon a number of assumptions, including discount rates, mortality rates and future salary (benefit) increases. The discount rates are equivalent to market yields of AA credit-rated corporate bonds that have terms to maturity approximating those of the related obligations. Future mortality rates are based on the official mortality table generally used for actuarial assumptions in Japan. Other assumptions used for the calculation of the defined benefit obligation are based on historical records. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Any change in these assumptions will impact actuarial gains and losses, as well as the present value of the defined benefit obligations and the net retirement benefit expense for each period. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in the year, and return on plan assets excluding interest income are recognized in other comprehensive income and are never reclassified to profit or loss.

The difference between the fair value of the plan assets and the present value of the defined benefit obligation at the end of the reporting period is recognized as assets and liabilities in the consolidated statement of financial position. When this calculation for each plan results in a benefit to the SMFG Group, the recognized asset is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to the SMFG Group, if it is realizable during the life of the plan or on settlement of the plan obligation. The net total of assets and liabilities in the consolidated statement of financial position amounted to net assets of ¥192,772 million and ¥177,112 million at March 31, 2017 and 2016, respectively. For additional information, refer to Note 23 “Retirement Benefits.”

### **Deferred Tax Assets**

Deferred tax assets relating to tax losses carried forward and deductible temporary differences are recognized, only to the extent that it is probable that future taxable profit will be available against which the tax losses carried forward and the deductible temporary differences can be utilized. This assessment requires significant management estimates and judgments. Future taxable profit is estimated based on, among other relevant factors, forecasted results of operations, which are based on historical financial performance and the business plans that management believes to be prudent and feasible. While the SMFG Group carefully assesses the realization of tax losses carried forward and deductible temporary differences, the actual taxable profit in the

future may be less than the forecast. The deferred tax assets amounted to ¥81,961 million and ¥115,314 million in the consolidated statement of financial position at March 31, 2017 and 2016, respectively, while the net total of deferred tax assets and liabilities amounted to net liabilities of ¥238,240 million and ¥220,574 million at March 31, 2017 and 2016, respectively. For additional information, refer to Note 22 “Deferred Income Tax.”

## **4 SEGMENT ANALYSIS**

### **Business Segments**

The SMFG Group’s business segment information is prepared based on the internal reporting system utilized by management to assess the performance of its business segments.

The SMFG Group has four main business segments: Commercial Banking, Leasing, Securities, and Consumer Finance, with the remaining operations recorded in Others. The business segment information covers SMBC, which accounts for the major portion of the SMFG Group’s total assets and revenue, in Commercial Banking, Sumitomo Mitsui Finance and Leasing Company, Limited (“SMFL”) in Leasing, SMBC Nikko Securities Inc. (“SMBC Nikko Securities”) and SMBC Friend Securities Co., Ltd. (“SMBC Friend Securities”) in Securities, and Sumitomo Mitsui Card Company, Limited (“Sumitomo Mitsui Card”), Cedyne Financial Corporation (“Cedyne”) and SMBC Consumer Finance Co., Ltd. (“SMBC Consumer Finance”) in Consumer Finance.

On April 1, 2017, the SMFG Group introduced Group-wide business units, which determine strategies for each customer segment across its Group companies, to further enhance the SMFG Group’s capability to meet its customers’ diversified needs. In connection with the introduction of such business units, beginning with the fiscal year ending March 31, 2018, the SMFG Group has also reorganized its business segments, which formerly consisted of Commercial Banking, Leasing, Securities and Consumer Finance, with the remaining operations recorded in Others, into Retail Business, Wholesale Business, International Business and Global Markets Business, with the remaining operations recorded in Others. The following information regarding our business segment is presented at March 31, 2017. The SMFG Group will disclose its business segment information in accordance with the new structure beginning with the fiscal year ending March 31, 2018.

### ***Commercial Banking***

SMBC represents the majority of the Commercial Banking segment, and the remainder includes domestic banking subsidiaries, such as SMBC Trust Bank Ltd. (“SMBC Trust Bank”), Kansai Urban Banking Corporation (“KUBC”) and THE MINATO BANK, LTD. (“The Minato Bank”), as well as foreign subsidiaries, such as Sumitomo Mitsui Banking Corporation Europe Limited (“SMBC Europe”), Sumitomo Mitsui Banking Corporation (China) Limited (“SMBC (China)”) and Manufacturers Bank. Since SMBC has a significant impact on the overall performance of the SMFG Group, its performance is reported to management in more detail by dividing it into four business units by customer market: the Wholesale Banking Unit, the Retail Banking Unit, the International Banking Unit and the Treasury Unit. In addition to the four business units, the Investment Banking Unit, the Corporate Advisory Division, the Private Advisory Division and the Transaction Business Division of SMBC provide a broad range of financial products, services and solutions to address sophisticated and diverse issues and needs of SMBC’s customers. The Investment Banking Unit is a cross-sectional unit which operates across the four business units. The Corporate Advisory Division operates within the Wholesale Banking Unit, and the Private Advisory Division operates within the Wholesale Banking Unit and the Retail Banking Unit, while the Transaction Business Division operates within the Wholesale Banking Unit, the Retail Banking Unit and the International Banking Unit. The revenues and expenses of these units and divisions are generally allocated to each business unit.

#### *SMBC's Wholesale Banking Unit*

SMBC's Wholesale Banking Unit aims to offer business solutions for the increasingly complex and diverse management issues that are faced by large Japanese corporations, including listed companies and mid-sized companies, and, together with certain of the SMFG Group companies, provides a wide range of financial products and services targeting those corporations and companies, through its sales channels. The financial products and services that this business unit provides include deposits, loans including syndicated loans, commitment lines, structured finance and nonrecourse loans, settlement services, cash management, leasing, factoring, management information systems consulting, collection and investment banking services.

#### *SMBC's Retail Banking Unit*

SMBC's Retail Banking Unit provides financial services to both consumers residing in Japan and domestic small-sized companies. For consumers, this business unit offers a wide range of financial services including personal bank accounts, housing loans and investment trusts, and provides pension-type insurance products and life insurance products as an agent. For small-sized companies, this business unit provides a wide array of financial products and services to comprehensively address in the same place business owners' needs as both corporate managers and individuals such as business and asset succession.

#### *SMBC's International Banking Unit*

SMBC's International Banking Unit mainly supports companies, financial institutions, sovereign/quasi-sovereign entities outside Japan, and multinational companies operating in Japan. This business unit has branches in the Americas, Europe and Middle East, and Asia and Oceania regions, forming a global network. This business unit provides a variety of tailored products and services including loans, deposits, clearing services, trade finance, project finance, loan syndication and global cash management services.

#### *SMBC's Treasury Unit*

SMBC's Treasury Unit operates in the domestic and international money, foreign exchange, securities and derivatives markets to serve customer needs and SMBC's own asset liability management requirements. To further expand SMBC's customer base, this business unit also seeks to provide specialized solutions and enhance customer service capabilities in market transactions through providing a variety of products from traditional money and foreign exchange transactions to derivative transactions.

#### *SMBC's Others*

SMBC's Others represents the difference between the aggregate of SMBC's four business units and SMBC as a whole. SMBC's Others includes the profit and loss amounts related to the Corporate Staff Unit, the Corporate Services Unit, the Compliance Unit, the Risk Management Unit and the Internal Audit Unit, which do not belong to any of the four business units. Those amounts mainly consist of administrative expenses related to the headquarters operations and profit or loss on the activities related to capital management.

#### ***Leasing***

Leasing mainly consists of SMFL, SMBC Leasing and Finance, Inc., a U.S. subsidiary, and Sumitomo Mitsui Auto Service Company Limited, an associate of the SMFG Group. SMFL is one of the major leasing companies in Japan and provides a variety of leasing services including equipment, operating, leveraged and aircraft leasing. On April 1, 2016, SMFL acquired General Electric Company ("GE") group's leasing business in Japan by acquiring a 100% equity interest in GE Japan GK ("GE Japan"), whose corporate name was changed to SMFL Capital Company, Limited on September 5, 2016.



### ***Securities***

Securities mainly consists of SMBC Nikko Securities and SMBC Friend Securities. SMBC Nikko Securities is one of the major Japanese securities brokers and offers a wide range of financial products, investment consultation and administration services to its individual and corporate customers in Japan. For individual customers, SMBC Nikko Securities provides consulting services to meet diversified asset management needs and an online trading tool. For corporate customers, it offers trading capabilities and financial products, debt and equity underwriting, and M&A advisory services, mainly in Japan. SMBC Friend Securities is a full-line securities company focusing on retail business in Japan. On May 12, 2016, SMFG announced its plan to merge SMBC Nikko Securities and SMBC Friend Securities in January 2018.

### ***Consumer Finance***

Consumer Finance mainly consists of Sumitomo Mitsui Card, Cedyna and SMBC Consumer Finance. Sumitomo Mitsui Card is a leading company in the domestic credit card industry, having introduced the Visa brand into the Japanese market. Sumitomo Mitsui Card conducts a comprehensive credit card business and offers a variety of settlement and financing services. Cedyna conducts credit card, installment (such as shopping credit and automobile loan) and solution (such as collection and factoring) businesses. SMBC Consumer Finance provides consumer loans that consist mainly of unsecured loans to individuals, and engages in other business including a loan guarantee business.

### ***SMFG's Others***

SMFG's Others represents the difference between the aggregate of Commercial Banking, Leasing, Securities, and Consumer Finance segments, and the SMFG Group as a whole. It mainly consists of profit or loss from SMFG on a stand-alone basis, other subsidiaries and equity-method associates, including The Japan Research Institute, Limited and Sumitomo Mitsui Asset Management Company, Limited ("SMAM"), which had been SMFG's equity-method associate and became SMFG's subsidiary in July 2016. It also includes internal transactions between the SMFG Group companies, which are eliminated in the consolidated financial statements.

### **Measurement of Segment Profit or Loss**

The business segment information is prepared under the management approach. Consolidated net business profit is used as a profit indicator of banks in Japan. Consolidated net business profit is calculated by deducting general and administrative expenses (i.e., the total of personnel expense, non-personnel expense and tax, excluding nonrecurring factors) from gross profits (i.e., the total of net interest income, trust fees, net fee and commission income, net trading income and net other operating income). While the SMFG Group's disclosure complies with the requirements on segment information in accordance with IFRS, the figures reported to management and disclosed herein are prepared under accounting principles generally accepted in Japan ("Japanese GAAP"). Consequently, the business segment information does not agree with the figures in the consolidated financial statements under IFRS. These differences are addressed in the "Reconciliation of Segmental Results of Operations to Consolidated Income Statement."

Information regarding the total assets of each segment is not used by management in deciding how to allocate resources and assess performance. Accordingly, total assets are not included in the business segment information.

## Segmental Results of Operations

For the fiscal year ended March 31, 2017:

	Commercial Banking										
	SMBC						Others <sup>(3)</sup>	Total			
	Wholesale Banking Unit	Retail Banking Unit	International Banking Unit	Treasury Unit	Others <sup>(2)</sup>	SMBC Total					
	(In billions)										
Gross profit	¥ 528.4	¥ 355.3	¥ 327.5	¥ 272.4	¥ 180.0	¥ 1,663.6	¥ 296.2	¥ 1,959.8			
Net interest income	271.1	294.8	194.7	144.2	234.1	1,138.9	184.4	1,323.3			
Net non-interest income	257.3	60.5	132.8	128.2	(54.1)	524.7	111.8	636.5			
General and administrative expenses and others	(199.1)	(350.9)	(128.8)	(27.4)	(110.7)	(816.9)	(247.0)	(1,063.9)			
Consolidated net business profit <sup>(1)(8)</sup>	¥ 329.3	¥ 4.4	¥ 198.7	¥ 245.0	¥ 69.3	¥ 846.7	¥ 49.2	¥ 895.9			
	Leasing	Securities			Consumer Finance			Others	Total		
	SMFL <sup>(4)</sup>	SMBC Nikko Securities <sup>(6)</sup>	SMBC Friend Securities	Total <sup>(5)</sup>	Sumitomo Mitsui Card	Cedyna <sup>(7)</sup>	SMBC Consumer Finance <sup>(4)</sup>	Total <sup>(5)</sup>			
	(In billions)										
Gross profit	¥ 178.8	¥ 196.4	¥ 351.2	¥ 43.3	¥ 388.8	¥ 222.1	¥ 168.4	¥ 246.3	¥ 640.5	¥ (264.8)	¥ 2,920.7
Net interest income	25.0	29.2	4.6	1.5	7.6	14.5	23.6	162.5	199.3	(200.8)	1,358.6
Net non-interest income	153.8	167.2	346.6	41.8	381.2	207.6	144.8	83.8	441.2	(64.0)	1,562.1
General and administrative expenses and others	(82.6)	(89.4)	(268.8)	(37.4)	(316.2)	(173.0)	(127.0)	(104.8)	(415.4)	97.1	(1,787.8)
Consolidated net business profit <sup>(1)(8)</sup>	¥ 96.2	¥ 107.0	¥ 82.4	¥ 5.9	¥ 72.6	¥ 49.1	¥ 41.4	¥ 141.5	¥ 225.1	¥ (167.7)	¥ 1,132.9

For the fiscal year ended March 31, 2016:

	Commercial Banking								Total
	SMBC						Others <sup>(3)</sup>	Total	
	Wholesale Banking Unit	Retail Banking Unit	International Banking Unit	Treasury Unit	Others <sup>(2)</sup>	SMBC Total			
	(In billions)								
Gross profit	¥ 545.3	¥ 372.8	¥ 356.0	¥ 293.6	¥ (33.4)	¥ 1,534.3	¥ 303.0	¥ 1,837.3	
Net interest income	300.1	302.0	225.4	168.2	27.9	1,023.6	174.4	1,198.0	
Net non-interest income	245.2	70.8	130.6	125.4	(61.3)	510.7	128.6	639.3	
General and administrative expenses and others	(205.1)	(354.1)	(116.5)	(29.1)	(100.7)	(805.5)	(218.9)	(1,024.4)	
Consolidated net business profit <sup>(1)(8)</sup>	¥ 340.2	¥ 18.7	¥ 239.5	¥ 264.5	¥(134.1)	¥ 728.8	¥ 84.1	¥ 812.9	

	Leasing		Securities			Consumer Finance			Others	Total	
	SMFL <sup>(4)</sup>	Total <sup>(5)</sup>	SMBC Nikko	SMBC Friend	Total <sup>(5)</sup>	Sumitomo Mitsui Card	Cedyna <sup>(7)</sup>	SMBC Consumer Finance <sup>(4)</sup>			Total <sup>(5)</sup>
			Securities <sup>(6)</sup>	Securities							
	(In billions)										
Gross profit	¥ 142.8	¥162.6	¥ 316.3	¥ 43.8	¥ 357.1	¥ 208.5	¥ 165.2	¥ 233.4	¥ 611.5	¥(64.5)	¥ 2,904.0
Net interest income	17.9	22.9	1.6	1.5	4.6	13.6	23.7	157.0	188.9	8.6	1,423.0
Net non-interest income	124.9	139.7	314.7	42.3	352.5	194.9	141.5	76.4	422.6	(73.1)	1,481.0
General and administrative expenses and others	(62.1)	(67.1)	(255.8)	(38.8)	(307.2)	(157.1)	(124.2)	(104.8)	(397.2)	34.8	(1,761.1)
Consolidated net business profit <sup>(1)(8)</sup>	¥ 80.7	¥ 95.5	¥ 60.5	¥ 5.0	¥ 49.9	¥ 51.4	¥ 41.0	¥ 128.6	¥ 214.3	¥(29.7)	¥ 1,142.9

**For the fiscal year ended March 31, 2015:**

	Commercial Banking									
	SMBC						Others <sup>(3)</sup>	Total		
	Wholesale Banking Unit	Retail Banking Unit	International Banking Unit	Treasury Unit	Others <sup>(2)</sup>	SMBC Total				
	(In billions)									
Gross profit	¥ 555.4	¥ 386.8	¥ 345.3	¥ 354.0	¥ (7.2)	¥ 1,634.3	¥ 289.4	¥1,923.7		
Net interest income	315.8	313.2	227.8	212.4	52.2	1,121.4	171.3	1,292.7		
Net non-interest income	239.6	73.6	117.5	141.6	(59.4)	512.9	118.1	631.0		
General and administrative expenses and others	(206.8)	(350.1)	(106.6)	(25.9)	(101.8)	(791.2)	(203.0)	(994.2)		
Consolidated net business profit <sup>(1)(8)</sup>	¥ 348.6	¥ 36.7	¥ 238.7	¥ 328.1	¥(109.0)	¥ 843.1	¥ 86.4	¥ 929.5		

	Leasing		Securities			Consumer Finance			Others	Total	
	SMFL <sup>(4)</sup>	Total <sup>(5)</sup>	SMBC Nikko Securities <sup>(6)</sup>	SMBC Friend Securities	Total <sup>(5)</sup>	Sumitomo Mitsui Card	Cedyna <sup>(7)</sup>	SMBC Consumer Finance <sup>(4)</sup>	Total <sup>(5)</sup>		
	(In billions)										
Gross profit	¥ 137.0	¥149.3	¥ 346.3	¥ 50.4	¥ 393.9	¥ 196.4	¥ 164.2	¥ 215.5	¥ 576.9	¥(63.4)	¥ 2,980.4
Net interest income	19.3	24.4	1.5	1.2	3.8	13.6	25.9	149.0	178.7	5.6	1,505.2
Net non-interest income	117.7	124.9	344.8	49.2	390.1	182.8	138.3	66.5	398.2	(69.0)	1,475.2
General and administrative expenses and others	(56.5)	(60.8)	(248.7)	(40.0)	(301.9)	(146.0)	(121.7)	(96.1)	(381.9)	68.9	(1,669.9)
Consolidated net business profit <sup>(1)(8)</sup>	¥ 80.5	¥ 88.5	¥ 97.6	¥ 10.4	¥ 92.0	¥ 50.4	¥ 42.5	¥ 119.4	¥ 195.0	¥ 5.5	¥ 1,310.5

- (1) Consolidated net business profit = Gross profit (\*) - General and administrative expenses + share of profit or loss of equity-method associates.  
(\*)Gross profit = (Interest income - Interest expenses) + Trust fees + (Fee and commission income - Fee and commission expenses) + (Trading income - Trading losses) + (Other operating income - Other operating expenses).
- (2) For the fiscal years ended March 31, 2017, net interest income of SMBC's Others included the dividends of ¥200 billion from SMBC Nikko Securities, which were eliminated in the consolidated financial statements as internal transactions between the SMFG Group companies.
- (3) Others in Commercial Banking consist of SMFG's banking subsidiaries except SMBC, such as SMBC Trust Bank, KUBC, The Minato Bank, SMBC Europe and SMBC (China). The results of SMBC Trust Bank for the fiscal years ended March 31, 2017 and 2016 include those of the retail banking business acquired from Citibank Japan Ltd. in November, 2015.
- (4) The figures represent consolidated figures of respective companies.
- (5) Total under each business segment, except Commercial Banking, includes the aggregation of the results from the operating units that were not separately identified.
- (6) The figures are the sum of SMBC Nikko Securities (nonconsolidated basis) and its overseas securities subsidiaries.
- (7) The figures represent Cedyna's consolidated figures excluding insignificant subsidiaries.
- (8) The SMFG Group's total credit cost (reversal) for the fiscal years ended March 31, 2017, 2016 and 2015 were ¥164.4 billion, ¥102.8 billion and ¥7.8 billion, respectively, of which ¥59.0 billion, ¥10.3 billion and ¥(68.3) billion were for Commercial Banking, ¥3.7 billion, ¥(1.5) billion and ¥(6.1) billion were for Leasing, ¥(0.1) billion, ¥(0.2) billion and ¥(0.2) billion were for Securities and ¥98.6 billion, ¥91.4 billion and ¥78.8 billion were for Consumer Finance. Total credit costs include gains on recoveries of written-off claims. The SMFG Group's total credit costs (reversal) are not included in the consolidated net business profit.

## Reconciliation of Segmental Results of Operations to Consolidated Income Statement

The figures provided in the tables above are calculated by aggregating the figures used for management reporting under Japanese GAAP for each segment. The total amount of consolidated net business profit that is calculated by each segment based on the internal managerial data is reconciled to profit before tax reported in the consolidated financial statements under IFRS as shown in the following table:

	<b>For the fiscal year ended March 31,</b>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
	(In billions)		
Consolidated net business profit .....	¥1,132.9	¥1,142.9	¥1,310.5
Differences between management reporting and Japanese GAAP:			
Total credit costs .....	(164.4)	(102.8)	(7.8)
Gains on equity instruments .....	55.0	69.0	66.7
Others .....	(44.2)	(128.9)	(60.0)
Profit before tax under Japanese GAAP .....	<u>979.3</u>	<u>980.2</u>	<u>1,309.4</u>
Differences between IFRS and Japanese GAAP:			
Scope of consolidation .....	(12.0)	(3.1)	(3.9)
Derivative financial instruments .....	(110.9)	173.1	(84.5)
Investment securities .....	(8.8)	56.6	10.2
Loans and advances .....	(0.7)	(35.2)	(116.3)
Investments in associates and joint ventures .....	(15.9)	53.4	23.6
Property, plant and equipment .....	1.3	1.3	(1.0)
Lease accounting .....	(3.7)	(1.5)	(2.0)
Defined benefit plans .....	22.9	6.6	3.1
Foreign currency translation .....	3.6	61.7	(23.1)
Classification of equity and liability .....	8.4	5.4	—
Others .....	16.9	27.2	17.4
Profit before tax under IFRS .....	<u>¥ 880.4</u>	<u>¥1,325.7</u>	<u>¥1,132.9</u>

## Information about Geographical Areas

The following table shows the total operating income in accordance with IFRS by the main geographical areas. The SMFG Group's services are provided to domestic and foreign clients on a worldwide basis. These include transactions where SMBC's branches in Japan may deal with customers located in foreign countries and where SMBC's overseas branches may provide services to Japanese companies.

To identify income attributed to each geographical area for the purposes of this disclosure, they are aggregated based on the geographical location of the booking entity, with the assumption that transactions booked in booking entities are deemed to have occurred in their respective geographical areas.

	For the fiscal year ended March 31,		
	2017	2016	2015
	(In millions)		
<b>Domestic<sup>(1)</sup>:</b>			
Japan .....	¥ 2,356,627	¥ 2,840,058	¥ 2,536,539
Total domestic .....	2,356,627	2,840,058	2,536,539
<b>Foreign<sup>(1)(2)</sup>:</b>			
Americas .....	313,742	196,399	172,050
Europe and Middle East .....	401,320	352,232	350,105
Asia and Oceania .....	276,206	299,537	273,739
Total foreign .....	991,268	848,168	795,894
Total operating income <sup>(3)</sup> .....	¥ 3,347,895	¥ 3,688,226	¥ 3,332,433

- (1) The geographical segmentation is determined based on the degrees of the following factors: geographic proximity, similarity of economic activities and relationship of business activities among regions.
- (2) Americas includes the United States, Brazil, Canada and others; Europe and Middle East include the United Kingdom, Germany, France and others; Asia and Oceania include China, Singapore, Australia and others except Japan.
- (3) Total operating income comprises net interest income, net fee and commission income, net trading income, net income from financial assets at fair value through profit or loss, net investment income and other income.

## 5 CASH AND DEPOSITS WITH BANKS

Cash and deposits with banks at March 31, 2017 and 2016 consisted of the following:

	At March 31,	
	2017	2016
	(In millions)	
Cash .....	¥ 1,123,128	¥ 965,189
Deposits with banks .....	46,207,027	42,179,465
Total cash and deposits with banks .....	¥47,330,155	¥43,144,654

The reconciliation of cash and cash equivalents used for the purposes of the consolidated statement of cash flows at March 31, 2017, 2016 and 2015 is shown as follows:

	At March 31,		
	2017	2016	2015
	(In millions)		
Cash and deposits with banks .....	¥47,330,155	¥43,144,654	¥40,112,783
Less: term deposits with original maturities over three months .....	(606,795)	(597,960)	(581,743)
Less: cash segregated as deposits and others .....	(478,541)	(419,728)	(422,283)
Cash and cash equivalents .....	¥46,244,819	¥42,126,966	¥39,108,757

Private depository institutions in Japan are required to maintain certain minimum reserve funds with the Bank of Japan, based on average deposit balances and certain other factors. There are similar reserve deposit requirements for the SMFG Group's foreign offices engaged in banking businesses in foreign countries. At March 31, 2017, 2016 and 2015, the reserves at the central banks, including those minimum reserve funds, which were included in cash and cash equivalents, amounted to ¥40,245,820 million, ¥36,020,569 million and ¥31,593,178 million, respectively.

## 6 TRADING ASSETS

Trading assets at March 31, 2017 and 2016 consisted of the following:

	<u>At March 31,</u>	
	<u>2017</u>	<u>2016</u>
	(In millions)	
Debt instruments .....	¥3,339,928	¥3,174,309
Equity instruments .....	436,743	440,783
Total trading assets .....	<u>¥3,776,671</u>	<u>¥3,615,092</u>

Trading debt instruments mainly consist of Japanese government bonds. Trading equity instruments mainly consist of publicly traded Japanese stocks and investment funds.

## 7 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments include futures, forwards, swaps, options and other types of derivative contracts, which are transactions listed on exchanges or over-the-counter (“OTC”) transactions. In the normal course of business, the SMFG Group enters into a variety of derivatives for trading and risk management purposes. The SMFG Group uses derivatives for trading activities, which include facilitating customer transactions, market-making and arbitrage activities. The SMFG Group also uses derivatives to reduce its exposures to market and credit risks as part of its asset and liability management, but does not apply hedge accounting.

Derivatives are financial instruments that derive their value from the price of underlying items such as interest rates, foreign exchange rates, equities, bonds, commodities, credit spreads and other indices. The SMFG Group's derivative financial instruments mainly consist of interest rate derivatives and currency derivatives. Interest rate derivatives include interest rate swaps, interest rate futures and interest rate swaptions. Currency derivatives include foreign exchange forward transactions, currency swaps and currency options.

The tables below represent the derivative financial instruments by type and purpose of derivatives at March 31, 2017 and 2016.

	At March 31, 2017					
	Trading			Risk Management <sup>(1)</sup>		
	Notional amounts	Assets	Liabilities	Notional amounts	Assets	Liabilities
	(In millions)					
Interest rate derivatives . . . . .	¥591,977,855	¥1,864,348	¥1,738,961	¥60,318,601	¥450,889	¥466,643
Futures . . . . .	78,549,213	20,278	16,579	5,853,880	221	865
Listed Options . . . . .	35,011,822	6,622	459	—	—	—
Forwards . . . . .	22,776,789	152	1,986	—	—	—
Swaps . . . . .	393,798,232	1,723,403	1,584,833	54,335,702	450,665	464,152
OTC Options . . . . .	61,841,799	113,893	135,104	129,019	3	1,626
Currency derivatives . . . . .	117,119,766	1,444,103	1,321,157	6,360,374	222,224	266,887
Futures . . . . .	2,261	—	19	—	—	—
Listed Options . . . . .	—	—	—	—	—	—
Forwards . . . . .	74,918,488	778,100	833,024	5,364	106	—
Swaps . . . . .	36,026,356	561,985	378,036	6,355,010	222,118	266,887
OTC Options . . . . .	6,172,661	104,018	110,078	—	—	—
Equity derivatives . . . . .	2,744,981	60,395	77,197	—	—	—
Futures . . . . .	1,075,040	13,743	3,154	—	—	—
Listed Options . . . . .	1,012,228	21,657	41,439	—	—	—
Forwards . . . . .	15,677	410	253	—	—	—
Swaps . . . . .	106,228	307	8,922	—	—	—
OTC Options . . . . .	535,808	24,278	23,429	—	—	—
Commodity derivatives . . . . .	172,973	11,679	10,491	—	—	—
Futures . . . . .	28,568	489	513	—	—	—
Listed Options . . . . .	—	—	—	—	—	—
Forwards . . . . .	—	—	—	—	—	—
Swaps . . . . .	116,525	11,037	9,230	—	—	—
OTC Options . . . . .	27,880	153	748	—	—	—
Credit derivatives . . . . .	1,400,080	10,344	8,358	—	—	—
Total derivative financial instruments . . . . .	<u>¥713,415,655</u>	<u>¥3,390,869</u>	<u>¥3,156,164</u>	<u>¥66,678,975</u>	<u>¥673,113</u>	<u>¥733,530</u>



At March 31, 2016

	Trading			Risk Management <sup>(1)</sup>		
	Notional amounts	Assets	Liabilities	Notional amounts	Assets	Liabilities
	(In millions)					
Interest rate derivatives . . .	¥624,009,304	¥2,507,089	¥2,516,295	¥49,612,909	¥ 820,725	¥ 760,503
Futures . . . . .	126,458,648	92,629	97,929	935,860	176	854
Listed Options . . . . .	34,227,948	6,632	380	—	—	—
Forwards . . . . .	15,838,272	164	375	—	—	—
Swaps . . . . .	396,311,398	2,294,931	2,255,616	48,478,874	816,199	759,635
OTC Options . . . . .	51,173,038	112,733	161,995	198,175	4,350	14
Currency derivatives . . . . .	97,093,252	1,615,618	1,379,134	10,203,718	283,651	335,457
Futures . . . . .	691	17	—	—	—	—
Listed Options . . . . .	—	—	—	—	—	—
Forwards . . . . .	56,831,767	932,937	926,924	502,194	12,007	2,910
Swaps . . . . .	33,597,294	553,104	297,358	9,701,524	271,644	332,547
OTC Options . . . . .	6,663,500	129,560	154,852	—	—	—
Equity derivatives . . . . .	1,971,463	32,536	60,122	9,929	352	40
Futures . . . . .	1,089,827	3,469	7,036	—	—	—
Listed Options . . . . .	357,609	8,523	19,476	—	—	—
Forwards . . . . .	11,960	502	17	—	—	—
Swaps . . . . .	66,213	78	12,696	9,929	352	40
OTC Options . . . . .	445,854	19,964	20,897	—	—	—
Commodity derivatives . . .	215,945	24,515	23,758	—	—	—
Futures . . . . .	15,300	678	891	—	—	—
Listed Options . . . . .	—	—	—	—	—	—
Forwards . . . . .	—	—	—	—	—	—
Swaps . . . . .	166,312	23,136	21,227	—	—	—
OTC Options . . . . .	34,333	701	1,640	—	—	—
Credit derivatives . . . . .	1,447,243	6,339	10,774	—	—	—
Total derivative financial instruments . . . . .	<u>¥724,737,207</u>	<u>¥4,186,097</u>	<u>¥3,990,083</u>	<u>¥59,826,556</u>	<u>¥1,104,728</u>	<u>¥1,096,000</u>

(1) Derivative financial instruments categorized as “Risk Management” are used for economic hedging, such as managing the exposure to changes in fair value of the loan portfolio, and are identified as hedges under Japanese GAAP, but the SMFG Group does not apply hedge accounting under IFRS.

### Credit derivatives

The SMFG Group enters into credit derivatives to manage the risk of its commercial banking credit portfolio containing loans by hedging, as well as diversifying the credit exposure in the portfolio, and to undertake credit loss protection transactions based on the needs from customers as financial intermediation. The tables below provide the notional amounts and the fair value of credit derivatives by purpose of transactions at March 31, 2017 and 2016.

At March 31, 2017

	Protection purchased			Protection sold		
	Notional amounts	Assets	Liabilities	Notional amounts	Assets	Liabilities
	(In millions)					
Managing the SMFG Group’s credit risk portfolio . . . . .	¥471,994	¥ 238	¥ 5,141	¥633,094	¥ 7,796	¥ 556
Facilitating client transactions . . . . .	139,402	77	2,327	155,590	2,233	334
Total . . . . .	<u>¥611,396</u>	<u>¥ 315</u>	<u>¥ 7,468</u>	<u>¥788,684</u>	<u>¥10,029</u>	<u>¥ 890</u>

	At March 31, 2016					
	Protection purchased			Protection sold		
	Notional amounts	Assets	Liabilities	Notional amounts	Assets	Liabilities
	(In millions)					
Managing the SMFG Group's credit risk portfolio .....	¥497,447	¥ 600	¥ 3,540	¥631,891	¥2,686	¥ 4,576
Facilitating client transactions .....	132,275	375	1,756	185,630	2,678	902
Total .....	<u>¥629,722</u>	<u>¥ 975</u>	<u>¥ 5,296</u>	<u>¥817,521</u>	<u>¥5,364</u>	<u>¥ 5,478</u>

The following table summarizes the notional amounts of the SMFG Group's credit derivative portfolio by type of counterparty at March 31, 2017 and 2016.

	At March 31, 2017		At March 31, 2016	
	Protection purchased	Protection sold	Protection purchased	Protection sold
	(In millions)			
Banks and broker-dealers .....	¥ 599,896	¥788,684	¥ 629,722	¥817,521
Insurance and other financial guaranty firms .....	11,500	—	—	—
Total .....	<u>¥ 611,396</u>	<u>¥788,684</u>	<u>¥ 629,722</u>	<u>¥817,521</u>

## 8 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss at March 31, 2017 and 2016 consisted of the following:

	At March 31,	
	2017	2016
	(In millions)	
Debt instruments .....	¥1,582,957	¥1,582,571
Equity instruments .....	16,136	29,306
Total financial assets at fair value through profit or loss .....	<u>¥1,599,093</u>	<u>¥1,611,877</u>

The SMFG Group classifies the entire hybrid instrument as financial assets at fair value through profit or loss when the SMFG Group is required to separate an embedded derivative from its host contract, but is unable to measure the embedded derivative separately either at acquisition or at the end of a subsequent reporting period.

The SMFG Group also classifies certain financial assets held by a venture capital investment subsidiary as financial assets at fair value through profit or loss. These financial assets are managed and their performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

## 9 INVESTMENT SECURITIES

Investment securities at March 31, 2017 and 2016 consisted of the following:

	At March 31,	
	2017	2016
(In millions)		
<b>Held-to-maturity investments:</b>		
<b>Domestic:</b>		
Japanese government bonds . . . . .	¥ 1,160,751	¥ 2,241,491
Japanese municipal bonds . . . . .	7,463	20,849
Japanese corporate bonds . . . . .	5,205	5,202
Total domestic . . . . .	<u>1,173,419</u>	<u>2,267,542</u>
Total held-to-maturity investments . . . . .	<u>¥ 1,173,419</u>	<u>¥ 2,267,542</u>
<b>Available-for-sale financial assets:</b>		
<b>Domestic:</b>		
Japanese government bonds . . . . .	¥ 5,722,674	¥ 6,528,575
Japanese municipal bonds . . . . .	82,780	31,221
Japanese corporate bonds . . . . .	363,550	307,496
Total domestic debt instruments . . . . .	<u>6,169,004</u>	<u>6,867,292</u>
Equity instruments . . . . .	<u>5,117,629</u>	<u>4,668,299</u>
Total domestic . . . . .	<u>11,286,633</u>	<u>11,535,591</u>
<b>Foreign:</b>		
U.S. Treasury and other U.S. government agency bonds . . . . .	3,468,263	2,246,130
Bonds issued by other governments and official institutions . . . . .	1,669,853	2,138,993
Mortgage-backed securities . . . . .	633,629	984,521
Other debt instruments . . . . .	183,021	112,974
Total foreign debt instruments . . . . .	<u>5,954,766</u>	<u>5,482,618</u>
Equity instruments . . . . .	<u>659,119</u>	<u>579,596</u>
Total foreign . . . . .	<u>6,613,885</u>	<u>6,062,214</u>
Total available-for-sale financial assets . . . . .	<u>¥17,900,518</u>	<u>¥17,597,805</u>
Total investment securities . . . . .	<u>¥19,073,937</u>	<u>¥19,865,347</u>

## 10 LOANS AND ADVANCES

The following table presents loans and advances at March 31, 2017 and 2016 by industry classification.

	At March 31,	
	2017	2016
(In millions)		
<b>Domestic:</b>		
Manufacturing . . . . .	¥ 9,578,147	¥ 8,298,576
Agriculture, forestry, fisheries and mining . . . . .	174,021	184,314
Construction . . . . .	1,151,989	1,169,900
Transportation, communications and public enterprises . . . . .	5,365,225	5,258,899
Wholesale and retail . . . . .	5,721,005	5,548,103
Finance and insurance . . . . .	2,844,546	2,684,865
Real estate and goods rental and leasing . . . . .	10,101,846	9,587,757
Services . . . . .	4,885,247	4,960,352
Municipalities . . . . .	1,216,211	1,374,306
Lease financing . . . . .	2,706,641	2,212,048
Consumer <sup>(1)</sup> . . . . .	19,096,755	18,935,521
Others . . . . .	5,178,461	2,989,278
Total domestic . . . . .	68,020,094	63,203,919
<b>Foreign:</b>		
Public sector . . . . .	299,746	236,290
Financial institutions . . . . .	4,588,001	4,067,764
Commerce and industry . . . . .	21,041,905	20,451,545
Lease financing . . . . .	404,658	357,072
Others . . . . .	1,836,322	1,481,455
Total foreign . . . . .	28,170,632	26,594,126
Gross loans and advances . . . . .	96,190,726	89,798,045
Adjust: Unearned income, unamortized premiums—net and deferred loan fees—net . . . . .	(236,425)	(212,957)
Less: Allowance for loan losses . . . . .	(680,456)	(722,717)
Net loans and advances . . . . .	¥95,273,845	¥88,862,371

(1) The balance in Consumer mainly consists of housing loans. The housing loan balances amounted to ¥13,766,771 million and ¥13,984,755 million at March 31, 2017 and 2016, respectively.

Reconciliation of allowance for loan losses is as follows:

	<b>For the fiscal year ended March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	(In millions, except percentages)		
Allowance for loan losses at beginning of period .....	¥722,717	¥793,552	¥950,665
Provision for loan losses .....	141,457	118,750	79,552
Charge-offs:			
Domestic .....	157,373	173,431	240,663
Foreign .....	33,135	20,218	9,233
Total .....	<u>190,508</u>	<u>193,649</u>	<u>249,896</u>
Recoveries:			
Domestic .....	9,852	9,477	9,517
Foreign .....	445	871	380
Total .....	<u>10,297</u>	<u>10,348</u>	<u>9,897</u>
Net charge-offs .....	180,211	183,301	239,999
Others <sup>(1)</sup> .....	(3,507)	(6,284)	3,334
Allowance for loan losses at end of period .....	<u>¥680,456</u>	<u>¥722,717</u>	<u>¥793,552</u>
Allowance for loan losses applicable to foreign activities:			
Balance at beginning of period .....	<u>¥134,664</u>	<u>¥100,783</u>	<u>¥ 73,030</u>
Balance at end of period .....	<u>¥128,347</u>	<u>¥134,664</u>	<u>¥100,783</u>
Provision for loan losses .....	<u>¥ 29,699</u>	<u>¥ 60,002</u>	<u>¥ 32,712</u>

(1) Others mainly include foreign exchange translations for the fiscal years ended March 31, 2017, 2016 and 2015.

## 11 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The following table presents the SMFG Group's principal associates and joint venture at March 31, 2017. Investments in associates and joint ventures of the SMFG Group are accounted for using the equity method unless they are held for sale.

Company Name	Country of Incorporation	Proportion of Ownership Interest <sup>(1)</sup> (%)	Proportion of Voting Rights <sup>(1)</sup> (%)	Main Business
<b>Principal Associates</b>				
The Japan Net Bank, Limited . . . . .	Japan	41.1	41.1	Internet banking
PT Bank Tabungan Pensiunan Nasional Tbk . . . . .	Indonesia	40.6	40.6	Commercial banking
The Bank of East Asia, Limited . . . . .	China	19.6	19.6	Commercial banking
ACLEDA Bank Plc. . . . .	Cambodia	18.2	18.2	Commercial banking
Vietnam Export Import Commercial Joint Stock Bank . . . . .	Vietnam	15.0	15.0	Commercial banking
Sumitomo Mitsui Auto Service Company, Limited . . . . .	Japan	33.9	33.9	Leasing
NEC Capital Solutions Limited . . . . .	Japan	25.0	25.0	Leasing
POCKET CARD CO., LTD. . . . .	Japan	35.5	35.5	Credit card
JSOL Corporation . . . . .	Japan	50.0	50.0	System development and data processing
Sakura Information Systems Co., Ltd. . . . .	Japan	49.0	49.0	System engineering and data processing
Daiwa SB Investments Ltd. . . . .	Japan	43.9	43.9	Investment advisory and investment trust management
China Post & Capital Fund Management Co., Ltd. . . . .	China	24.0	24.0	Investment advisory and investment trust management
<b>Principal Joint Venture</b>				
Daiwa Securities SMBC Principal Investments Co., Ltd. . . . .	Japan	40.0	40.0	Investments, fund management

(1) Percentages of proportion of ownership interest and proportion of voting rights have been truncated.

The SMFG Group accounts for certain investees, including The Bank of East Asia, Limited, ACLEDA Bank Plc. and Vietnam Export Import Commercial Joint Stock Bank, as associates regardless of its below 20% holdings of the voting rights to these investees, since the SMFG Group has the ability to exercise significant influence over these investees through participation in the policy making process at the meeting of the board of directors, the provision of essential technical information, or other relevant agreements or relationships.

On the other hand, the SMFG Group accounts for certain investees as available-for-sale financial assets regardless of its 20% or more holdings of the voting rights to these investees because the SMFG Group has contracts or arrangements with other investors by which the SMFG Group loses the power to exert significant influence over such investees.

The SMFG Group has interests in a number of associates and joint ventures, none of which are regarded as individually material. The following table summarizes, in aggregate, the financial information of all individually immaterial associates and joint ventures that are accounted for using the equity method:

	At and for the fiscal year ended March 31,	
	2017	2016
	(In millions)	
Carrying amount of investments in associates and joint ventures	¥ 675,704	¥ 702,264
Share of:		
Profit from continuing operations	29,318	31,056
Other comprehensive income (loss)	(21,602)	(13,804)
Total comprehensive income	7,716	17,252

There are no significant restrictions on the ability of associates or joint ventures to transfer funds to the SMFG Group in the form of cash dividends, repayment of loans and advances.

## 12 PROPERTY, PLANT AND EQUIPMENT

The table below shows the changes in property, plant and equipment for the fiscal years ended March 31, 2017 and 2016.

	Assets for rent	Land	Buildings	Leased assets	Others	Total
	(In millions)					
Cost	¥1,747,839	¥497,772	¥ 679,567	¥ 16,693	¥ 466,584	¥ 3,408,455
Accumulated depreciation and impairment losses	(241,130)	(5,040)	(376,926)	(8,325)	(280,537)	(911,958)
Net carrying amount at April 1, 2015	1,506,709	492,732	302,641	8,368	186,047	2,496,497
Additions	306,788	24,072	29,196	1,936	77,378	439,370
Acquisition of subsidiaries and businesses	—	—	1,175	—	615	1,790
Disposals	(108,452)	(3,727)	(1,567)	(14)	(1,781)	(115,541)
Depreciation	(68,189)	—	(23,145)	(2,727)	(31,054)	(125,115)
Impairment losses	—	(1,009)	(3,222)	—	(6)	(4,237)
Exchange differences	(78,630)	(6)	(744)	(4)	(1,395)	(80,779)
Others	(12,866)	757	71,345	(1)	(80,269)	(21,034)
Net carrying amount	1,545,360	512,819	375,679	7,558	149,535	2,590,951
Cost	1,833,990	518,564	760,244	16,741	431,178	3,560,717
Accumulated depreciation and impairment losses	(288,630)	(5,745)	(384,565)	(9,183)	(281,643)	(969,766)
Net carrying amount at March 31, 2016	1,545,360	512,819	375,679	7,558	149,535	2,590,951
Additions	320,921	1,268	15,117	1,704	41,292	380,302
Acquisition of subsidiaries and businesses	52,636	20	604	4	547	53,811
Disposals	(152,172)	(2,758)	(1,089)	(74)	(1,771)	(157,864)
Depreciation	(88,198)	—	(24,507)	(2,102)	(29,749)	(144,556)
Impairment losses	—	(453)	(5,618)	—	(325)	(6,396)
Exchange differences	(9,670)	—	(192)	—	(425)	(10,287)
Others	(9,961)	3,596	10,813	97	(24,451)	(19,906)
Net carrying amount	1,658,916	514,492	370,807	7,187	134,653	2,686,055
Cost	2,086,804	520,078	774,233	17,837	425,728	3,824,680
Accumulated depreciation and impairment losses	(427,888)	(5,586)	(403,426)	(10,650)	(291,075)	(1,138,625)
Net carrying amount at March 31, 2017	¥1,658,916	¥514,492	¥ 370,807	¥ 7,187	¥ 134,653	¥ 2,686,055

The impairment losses on property, plant and equipment are included in “Other expenses” in the consolidated income statement.

The SMFG Group had ¥2,773,096 million and ¥2,798,483 million of contractual commitments to acquire property, plant and equipment at March 31, 2017 and 2016, respectively.

The carrying amount of items of property, plant and equipment on which there was a restriction on title was ¥7,187 million and ¥8,139 million at March 31, 2017 and 2016, respectively.

### 13 LEASES

#### As Lessee

The SMFG Group leases land and buildings, office equipment, and other tangible and intangible assets from third parties under finance leases or operating leases.

#### *Carrying amount of assets held under finance leases*

The carrying amount of assets held under finance leases at March 31, 2017 and 2016 consisted of the following:

	At March 31,	
	2017	2016
	(In millions)	
Tangible assets:		
Land and buildings .....	¥ 3,295	¥ 3,689
Other tangible assets <sup>(1)</sup> .....	3,892	3,869
Total <sup>(2)</sup> .....	<u>7,187</u>	<u>7,558</u>
Intangible assets:		
Software .....	185	269
Total <sup>(3)</sup> .....	<u>¥ 7,372</u>	<u>¥ 7,827</u>

(1) Other tangible assets include mainly equipment, machinery and vehicles.

(2) Cross-reference to Leased assets in Note 12 “Property, Plant and Equipment.”

(3) The SMFG Group has sublet leased assets classified as finance leases (the carrying amount of those assets is not included in table above). Future minimum sublease payments related to sublet leased assets are included in finance lease commitments.

#### *Finance lease commitments*

The total of future minimum lease payments and their present value under finance leases at March 31, 2017 and 2016 were as follows:

	At March 31,	
	2017	2016
	(In millions)	
Not later than one year .....	¥ 27,901	¥ 24,373
Later than one year and not later than five years .....	78,958	75,922
Later than five years .....	6,129	9,710
Total .....	112,988	110,005
Less: Future interest charges .....	(6,064)	(4,314)
Present value of finance lease commitments <sup>(1)</sup> .....	<u>¥106,924</u>	<u>¥105,691</u>

(1) Present value of finance lease commitments is included in “Borrowings” in the consolidated statement of financial position. See Note 18 “Borrowings.”



At March 31, 2017 and 2016, the total amounts of future minimum sublease payments to be received under non-cancellable subleases were ¥108,351 million and ¥80,992 million, respectively.

### *Operating lease commitments*

The total amounts of future minimum lease payments under non-cancellable operating leases at March 31, 2017 and 2016 were as follows:

	At March 31,	
	2017	2016
	(In millions)	
Not later than one year	¥ 44,746	¥ 42,254
Later than one year and not later than five years	124,946	104,799
Later than five years	129,312	108,603
Total future minimum lease payments under non-cancellable operating leases	¥299,004	¥255,656

For the fiscal years ended March 31, 2017, 2016 and 2015, ¥49,047 million, ¥50,801 million and ¥46,591 million were recognized as expenses in respect of operating lease and sublease agreements, of which ¥48,527 million, ¥50,278 million and ¥46,328 million related to minimum lease payments, and ¥520 million, ¥523 million and ¥263 million related to sublease payments, respectively. Lease expenses recognized in respect of lease and sublease agreements are included in “General and administrative expenses” in the consolidated income statement.

### **As Lessor**

The SMFG Group leases assets to third parties under finance leases or operating leases, including machinery, equipment, aircraft, vessel and property.

### *Finance lease receivable*

The gross investment in the lease, unearned finance income, present value of the minimum lease payments receivable and unguaranteed residual values under finance leases at March 31, 2017 and 2016 were as follows:

	At March 31, 2017			
	Gross investment in the lease	Unearned finance income	Present value of the minimum lease payments receivable <sup>(1)</sup>	Unguaranteed residual values <sup>(1)</sup>
	(In millions)			
Not later than one year	¥ 1,023,842	¥ 91,070	¥ 932,772	¥ 16,831
Later than one year and not later than five years	1,841,026	155,534	1,685,492	112,474
Later than five years	343,332	38,960	304,372	59,358
Total	¥ 3,208,200	¥ 285,564	¥ 2,922,636	¥ 188,663

	At March 31, 2016			
	Gross investment in the lease	Unearned finance income	Present value of the minimum lease payments receivable <sup>(1)</sup>	Unguaranteed residual values <sup>(1)</sup>
	(In millions)			
Not later than one year	¥ 834,652	¥ 71,785	¥ 762,867	¥ 18,067
Later than one year and not later than five years	1,468,368	110,766	1,357,602	93,300
Later than five years	310,089	36,445	273,644	63,640
Total	¥ 2,613,109	¥ 218,996	¥ 2,394,113	¥ 175,007

(1) Present value of the minimum lease payments receivable and unguaranteed residual values are included in “Loans and advances” in the consolidated statement of financial position.

Accumulated allowance for uncollectible minimum lease payments receivable was ¥10,827 million and ¥15,565 million at March 31, 2017 and 2016, respectively.

### *Operating lease receivable*

The total amounts of the future minimum lease payments receivable under non-cancellable operating leases at March 31, 2017 and 2016 were as follows:

	<u>At March 31,</u>	
	<u>2017</u>	<u>2016</u>
	(In millions)	
Not later than one year .....	¥ 215,329	¥ 186,114
Later than one year and not later than five years .....	790,394	642,387
Later than five years .....	484,896	576,463
Total .....	<u>¥1,490,619</u>	<u>¥1,404,964</u>

## 14 INTANGIBLE ASSETS

### Goodwill

The table below shows the changes in goodwill by business segment for the fiscal years ended March 31, 2017 and 2016.

	<u>Commercial Banking</u>	<u>Leasing</u>	<u>Securities</u>	<u>Consumer Finance</u>	<u>Others</u>	<u>Total</u>
	(In millions)					
Gross amount of goodwill .....	¥ 27,237	¥116,525	¥256,936	¥63,418	¥ 1,958	¥466,074
Accumulated impairment losses .....	—	—	(10,067)	—	(1,958)	(12,025)
Net carrying amount at April 1, 2015 .....	<u>27,237</u>	<u>116,525</u>	<u>246,869</u>	<u>63,418</u>	<u>—</u>	<u>454,049</u>
Acquisitions <sup>(1)</sup> .....	8,443	—	—	—	—	8,443
Impairment losses .....	(1,124)	—	—	—	—	(1,124)
Exchange differences .....	—	(581)	—	—	—	(581)
Net carrying amount .....	34,556	115,944	246,869	63,418	—	460,787
Gross amount of goodwill .....	35,680	115,944	256,936	63,418	1,958	473,936
Accumulated impairment losses .....	(1,124)	—	(10,067)	—	(1,958)	(13,149)
Net carrying amount at March 31, 2016 ...	<u>34,556</u>	<u>115,944</u>	<u>246,869</u>	<u>63,418</u>	<u>—</u>	<u>460,787</u>
Acquisitions <sup>(2)</sup> .....	—	2,417	—	—	38,053	40,470
Impairment losses .....	—	—	(74,616)	—	—	(74,616)
Exchange differences .....	—	(186)	—	—	—	(186)
Net carrying amount .....	34,556	118,175	172,253	63,418	38,053	426,455
Gross amount of goodwill .....	35,680	118,175	256,936	63,418	40,011	514,220
Accumulated impairment losses .....	(1,124)	—	(84,683)	—	(1,958)	(87,765)
Net carrying amount at March 31, 2017 ...	<u>¥ 34,556</u>	<u>¥118,175</u>	<u>¥172,253</u>	<u>¥63,418</u>	<u>¥38,053</u>	<u>¥426,455</u>

(1) The SMFG Group recognized goodwill of ¥8,443 million in Commercial Banking resulting from the acquisition of the retail banking business of Citibank Japan Ltd in November 2015. For additional information, refer to Note 49 “Acquisitions.”

(2) The SMFG Group recognized goodwill of ¥2,417 million in Leasing resulting from the acquisition of SMFL Capital Company, Limited, formerly known as GE Japan in April 2016 and ¥38,053 million in Others resulting from the acquisition of SMAM in July 2016. For additional information, refer to Note 49 “Acquisitions.”

### ***Impairment testing of goodwill***

#### *Allocating goodwill to cash-generating units*

For the purpose of impairment testing, goodwill is allocated to cash-generating units or group of cash-generating units, which represent the lowest level within the entity at which goodwill is monitored for internal purposes.

At March 31, 2017 the SMFG Group allocated goodwill to SMBC Trust Bank and KUBC within Commercial Banking amounting to ¥23,359 million and ¥11,197 million, respectively, to SMFL within Leasing amounting to ¥102,710 million, to SMBC Nikko Securities within Securities amounting to ¥172,253 million, to SMBC Consumer Finance within Consumer Finance amounting to ¥56,692 million, and to SMAM within Others amounting to ¥38,053 million.

At March 31, 2016 the SMFG Group allocated goodwill to SMBC Trust Bank and KUBC within Commercial Banking amounting to ¥23,359 million and ¥11,197 million, respectively, to SMFL within Leasing amounting to ¥102,710 million, to SMBC Nikko Securities and SMBC Friend Securities within Securities amounting to ¥172,253 million and ¥74,616 million, respectively, and to SMBC Consumer Finance within Consumer Finance amounting to ¥56,692 million.

The aggregate amounts of other goodwill were ¥22,191 million and ¥19,960 million at March 31, 2017 and 2016, respectively, and they were not considered individually significant.

#### *Timing of impairment tests*

The SMFG Group performs impairment tests at least annually and whenever there is an indication that the cash-generating unit may be impaired.

#### *Recoverable amount of cash-generating units*

To determine whether an impairment loss shall be recognized, the carrying amount of a cash-generating unit is compared to its recoverable amount. The recoverable amount of a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

*Fair value less costs to sell:* The fair value less costs to sell is determined using an observable market price in the active market or unobservable inputs for the cash-generating unit at the date of the impairment test. The SMFG Group determined the recoverable amount of SMBC Friend Securities for the fiscal year ended March 31, 2017 based on the fair value less costs to sell.

*Value in use:* The value in use is determined based on discounted future cash flows, which are based on the financial plans which have been approved by management and which are valid when the impairment test is performed. The financial plans are prepared taking into account the current economic and regulatory environment, direction of the regulation and business forecasts of the individual cash-generating units. The SMFG Group determined the recoverable amounts of the primary cash-generating units based on the value in use other than the recoverable amount of SMBC Friend Securities for the fiscal year ended March 31, 2017.

The financial plans, which are used to estimate the cash flow projections of the cash-generating units, cover three to five years. The cash flow projections beyond the period covered by the financial plans are extrapolated by applying the appropriate growth rates in perpetuity.

*Key assumptions used in impairment testing*

The key assumptions used for the value in use calculations for the fiscal years ended March 31, 2017 and 2016 were as follows:

	SMBC Trust Bank		KUBC	SMFL	SMBC Nikko Securities	SMBC Friend Securities	SMBC Consumer Finance	SMAM
	Corporate Business	Retail Banking <sup>(1)</sup>						
For the fiscal year ended								
March 31, 2017:								
Pre-tax discount rate . . . . .	9.75%	6.52%	6.24%	6.63%	8.12%	—	10.58%	7.17%
Growth rate . . . . .	1.00%	1.00%	1.00%	1.00%	1.00%	—	1.00%	1.00%
For the fiscal year ended								
March 31, 2016:								
Pre-tax discount rate . . . . .	7.84%	5.63%	5.27%	6.55%	7.53%	6.72%	9.87%	—
Growth rate . . . . .	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	—

(1) The business which SMBC Trust Bank acquired from Citibank Japan Ltd., in November 2015 is identified as Retail Banking.

Management considers that the pre-tax discount rates and the growth rates are the most sensitive key assumptions to determine the value in use of the cash-generating units.

*Pre-tax discount rate:* The pre-tax discount rates used to estimate the discounted cash flow of the primary cash-generating units are determined based on the Capital Asset Pricing Model (“CAPM”). The risk-free interest rate, the market risk premium and the beta factor that are used in the CAPM are determined based on market data and other external sources of information. The beta factor is determined based on a respective group of peer companies of the cash-generating units.

*Growth rate:* The growth rates used to estimate the cash flow projections beyond the period covered by the financial plans, which shall cover a maximum period of five years, are determined based on the expected long-term inflation rate and long-term average growth rates for the industries. The growth rate does not exceed the long-term growth rate for the industry in which the cash-generating unit operates.

Management believes that there were no reasonably possible changes in any of the key assumptions that would lead to the recoverable amounts of the cash-generating units being below these carrying amounts for the fiscal years ended March 31, 2017 and 2016.

***Recognition of Impairment Losses***

If the recoverable amount of the cash-generating unit is less than its carrying amount, the carrying amount of the cash-generating unit is reduced to its recoverable amount, and this reduction is recognized as impairment loss of goodwill.

The recoverable amount of SMBC Friend Securities for the fiscal year ended March 31, 2016 was determined based on the value in use. However, for the fiscal year ended March 31, 2017, the value in use of SMBC Friend Securities decreased to less than fair value less costs to sell, primarily due to the revision of the business plan. Therefore, for the fiscal year ended March 31, 2017, the SMFG Group determined the recoverable amount of SMBC Friend Securities based on the fair value less costs to sell, which was measured based on net asset value and categorized within level 3 in the fair value hierarchy.

As a result, the SMFG Group recognized an impairment loss of ¥74,616 million, equal to the total carrying amount of the goodwill relating to SMBC Friend Securities in the Securities segment, for the fiscal year ended March 31, 2017.

## Other intangible assets

The table below shows the changes in other intangible assets for the fiscal years ended March 31, 2017 and 2016.

	Internally generated software	Purchased software	Contractual customer relationships	Trademarks	Other intangibles	Total
	(In millions)					
Cost	¥ 518,871	¥ 332,504	¥ 163,630	¥ 41,828	¥ 33,678	¥1,090,511
Accumulated amortization and impairment losses	(285,148)	(207,011)	(47,300)	(21,824)	(7,282)	(568,565)
Net carrying amount at April 1, 2015	233,723	125,493	116,330	20,004	26,396	521,946
Additions	110,352	46,191	—	—	2,496	159,039
Acquisition of subsidiaries and businesses	—	234	9,320	—	27,487	37,041
Disposals	(290)	(1,073)	—	—	(633)	(1,996)
Amortization	(70,358)	(38,241)	(11,021)	(4,183)	(3,069)	(126,872)
Impairment losses	—	—	—	—	(154)	(154)
Exchange differences	(98)	(665)	—	—	(289)	(1,052)
Others	480	2,524	—	—	(3,650)	(646)
Net carrying amount	273,809	134,463	114,629	15,821	48,584	587,306
Cost	591,118	346,819	172,950	41,828	58,368	1,211,083
Accumulated amortization and impairment losses	(317,309)	(212,356)	(58,321)	(26,007)	(9,784)	(623,777)
Net carrying amount at March 31, 2016	273,809	134,463	114,629	15,821	48,584	587,306
Additions	102,193	41,080	—	—	2,228	145,501
Acquisition of subsidiaries and businesses	879	851	76,027	4,288	9,623	91,668
Disposals	(1,376)	(2,379)	—	—	(1,452)	(5,207)
Amortization	(82,158)	(40,722)	(20,192)	(4,256)	(4,579)	(151,907)
Impairment losses	—	(97)	—	—	(75)	(172)
Exchange differences	(32)	2	—	—	(15)	(45)
Others	(1,178)	6,499	—	—	(2,352)	2,969
Net carrying amount	292,137	139,697	170,464	15,853	51,962	670,113
Cost	648,463	372,531	248,977	46,116	64,487	1,380,574
Accumulated amortization and impairment losses	(356,326)	(232,834)	(78,513)	(30,263)	(12,525)	(710,461)
Net carrying amount at March 31, 2017	¥ 292,137	¥ 139,697	¥ 170,464	¥ 15,853	¥ 51,962	¥ 670,113

The impairment losses on other intangible assets are included in “Other expenses” and the amortization expenses of other intangible assets are included in “General and administrative expenses” in the consolidated income statement.

The SMFG Group had ¥317 million and ¥1,733 million of contractual commitments to acquire intangible assets at March 31, 2017 and 2016, respectively.

The amounts of research and development expenditure recognized as expenses for the fiscal years ended March 31, 2017, 2016 and 2015 were ¥89 million, ¥207 million and ¥171 million, respectively, and they were included in “General and administrative expenses” in the consolidated income statement.

Other intangibles at March 31, 2017 and 2016 include leasehold rights, amounting to ¥6,825 million and ¥7,068 million, respectively, which are rights to use land for the purpose of owning the buildings. Since the SMFG Group has a long history of renewal, these contracts are not expected to be terminated in the foreseeable future. Leasehold rights are expected to generate cash flows for an indefinite period of time. They are not amortized but are tested for impairment annually, irrespective of whether there is any indication of impairment.

## 15 OTHER ASSETS

Other assets at March 31, 2017 and 2016 consisted of the following:

	At March 31,	
	2017	2016
	(In millions)	
Prepaid expenses	¥ 72,594	¥ 62,900
Accrued income	380,018	361,481
Receivables from brokers, dealers and customers for securities transactions	1,438,977	1,101,591
Cash collateral provided for derivative and other financial transactions	1,089,481	811,300
Retirement benefit assets	257,744	232,621
Security deposits	115,064	115,714
Investment properties <sup>(1)</sup>	436,985	348,122
Others	665,168	620,719
<b>Total other assets</b>	<b>¥ 4,456,031</b>	<b>¥ 3,654,448</b>

- (1) Investment properties are carried at cost less accumulated depreciation and accumulated impairment losses. The fair values of investment properties were ¥474,018 million and ¥370,384 million at March 31, 2017 and 2016, respectively. The fair values were mainly determined based on market values provided by independent valuation appraisers having the appropriate recognized professional qualifications and recent experience in the locations and categories of properties being valued. Rental income from investment properties was ¥25,322 million, ¥20,879 million and ¥19,076 million for the fiscal years ended March 31, 2017, 2016 and 2015, respectively.

## 16 DEPOSITS

Deposits at March 31, 2017 and 2016 consisted of the following:

	At March 31,	
	2017	2016
	(In millions)	
Non-interest-bearing demand deposits	¥ 19,853,552	¥ 18,663,654
Interest-bearing demand deposits	51,281,995	46,840,202
Deposits at notice	10,330,269	9,694,571
Time deposits	29,525,875	29,144,425
Negotiable certificates of deposit	11,880,938	14,249,835
Others <sup>(1)</sup>	7,422,661	7,348,110
<b>Total deposits</b>	<b>¥130,295,290</b>	<b>¥125,940,797</b>

- (1) Others include, among other items, foreign currency deposits in domestic offices and Japanese yen accounts held by foreign depositors in domestic offices.

## 17 TRADING LIABILITIES

Trading liabilities at March 31, 2017 and 2016 consisted of the following:

	At March 31,	
	2017	2016
	(In millions)	
Debt instruments "short position" .....	¥ 2,038,330	¥ 2,184,408
Equity instruments "short position" .....	33,254	13,265
Total trading liabilities .....	<u>¥ 2,071,584</u>	<u>¥ 2,197,673</u>

Trading liabilities include the instruments classified as held for trading. Trading debt instruments mainly consist of Japanese government bonds. Trading equity instruments mainly consist of publicly traded Japanese stocks.

## 18 BORROWINGS

Short-term borrowings and long-term borrowings (with original maturities of more than one year) at March 31, 2017 and 2016 consisted of the following:

	Interest rate	At March 31,	
		2017	2016
(In millions)			
<b>SMFG:</b>			
Long-term borrowings:			
Unsubordinated			
Fixed rate borrowing, payable in United States dollars, due 2022-2031	2.89%-3.87%	¥ 33,657	¥ —
Floating rate borrowing, payable in United States dollars, due 2026-2028	2.31%-2.61%	50,149	—
Subordinated			
Fixed rate borrowing, payable in Japanese yen, due 2024-2031	0.56%-1.27%	49,000	49,000
Total SMFG		132,806	49,000
<b>SMBC:</b>			
Short-term borrowings	0.00%-1.29%	6,640,069	2,095,696
Long-term borrowings:			
Unsubordinated			
Fixed rate borrowing, payable in Japanese yen, due 2016-2028	0.10%-6.10%	4,351	2,424,818
Fixed rate borrowing, payable in United States dollars, due 2017-2025	0.00%-4.17%	45,387	45,048
Fixed rate borrowing, payable in euros, due 2017-2045	0.00%-3.50%	101,492	82,588
Floating rate borrowing, payable in Japanese yen, due 2018-2036	(0.18%)-0.14%	68,000	125,526
Floating rate borrowing, payable in United States dollars, due 2017-2033	0.58%-2.47%	904,263	749,117
Floating rate borrowing, payable in euros, due 2021-2022	0.00%-0.07%	31,769	9,815
Subordinated			
Fixed rate borrowing, payable in Japanese yen, due 2016-2027	1.28%-4.50%	226,000	231,000
Total SMBC		8,021,331	5,763,608
<b>Other subsidiaries:</b>			
Short-term borrowings	0.06%-9.36%	906,427	977,813
Long-term borrowings:			
Unsubordinated			
Fixed rate borrowing, payable in Japanese yen, due 2016-2042	0.00%-2.67%	617,358	565,402
Fixed rate borrowing, payable in United States dollars, due 2016-2023	0.39%-5.96%	216,213	154,840
Fixed rate borrowing, payable in Chinese yuan, due 2016-2021	2.40%-6.15%	24,348	30,063
Fixed rate borrowing, payable in Thai baht, due 2016-2021	1.85%-4.03%	12,724	9,334
Floating rate borrowing, payable in Japanese yen, due 2016-2042	0.04%-11.75%	431,141	523,588
Floating rate borrowing, payable in United States dollars, due 2016-2027	0.59%-3.54%	498,860	505,150
Floating rate borrowing, payable in euros, due 2018-2020	1.00%-1.96%	47,952	48,435
Floating rate borrowing, payable in Great Britain pound, due 2042-2043	1.51%-8.49%	20,190	9,217
Other fixed or floating rate borrowing, due 2016-2043	0.58%-11.79%	30,728	29,803
Subordinated			
Fixed rate borrowing, payable in Japanese yen, due 2021	1.35%	5,200	5,200
Floating rate borrowing, payable in Japanese yen, due 2021-2025	1.92%-2.56%	4,000	10,000
Total other subsidiaries		2,815,141	2,868,845
<b>Liabilities associated with securitization transactions:</b>			
Fixed rate borrowing, payable in Japanese yen, due 2016-2049	0.09%-2.70%	1,077,539	1,028,089
Floating rate borrowing, payable in Japanese yen, due 2017-2027	0.16%-1.66%	85,421	89,907
Floating rate borrowing, payable in United States dollars, due 2019-2020	1.31%-2.08%	6,781	8,989
Total liabilities associated with securitization transactions		1,169,741	1,126,985
<b>Lease obligations</b>	—	106,924	105,691
Total borrowings		¥ 12,245,943	¥ 9,914,129

The interest rates shown in the above table are the contractual rates in effect at March 31, 2017 and 2016, and thus do not represent the actual effective interest rates. Maturity information for certain subordinated borrowings is based on the date of callable options.



## 19 DEBT SECURITIES IN ISSUE

Debt securities in issue at March 31, 2017 and 2016 consisted of the following:

	Interest rate	At March 31,	
		2017	2016
(In millions)			
<b>SMFG:</b>			
Bonds:			
Bonds, payable in United States dollars, due 2021-2047 .....	1.99%-4.30%	¥ 1,639,109	¥ 441,257
Bonds, payable in euros, due 2022-2026 .....	0.61%-1.55%	239,081	—
Bonds, payable in Australian dollars, due 2022-2026 .....	3.07%-3.66%	93,691	—
Subordinated bonds:			
Subordinated bonds, payable in Japanese yen, due 2024-2030 .....	0.30%-1.33%	653,778	409,062
Subordinated bonds, payable in United States dollars, due 2024 .....	4.44%	195,697	196,718
Total SMFG .....		<u>2,821,356</u>	<u>1,047,037</u>
<b>SMBC:</b>			
Commercial paper .....	(0.50%)-1.61%	1,389,908	1,979,511
Bonds:			
Bonds, payable in Japanese yen, due 2016-2019 .....	(0.04%)-0.69%	156,182	389,815
Bonds, payable in United States dollars, due 2016-2045 .....	0.94%-4.30%	2,404,015	2,597,629
Bonds, payable in euros, due 2017-2023 .....	0.00%-2.75%	417,767	443,004
Bonds, payable in Australian dollars, due 2016-2025 .....	2.97%-4.13%	77,270	126,808
Bonds, payable in Hong Kong dollars, due 2020-2025 .....	2.09%-2.92%	34,136	34,349
Bonds, payable in Thai baht, due 2019 .....	2.09%	11,410	—
Subordinated bonds:			
Subordinated bonds, payable in Japanese yen, due 2017-2026 .....	0.87%-2.80%	565,599	890,497
Subordinated bonds, payable in United States dollars, due 2022 .....	4.85%	167,724	168,207
Subordinated bonds, payable in euros, due 2020 .....	4.00%	89,227	94,158
Total SMBC .....		<u>5,313,238</u>	<u>6,723,978</u>
<b>Other subsidiaries:</b>			
Commercial paper .....	(0.00%)-1.58%	2,128,438	2,190,004
Bonds:			
Bonds, payable in Japanese yen, due 2016-2047 .....	0.01%-20.00%	788,633	737,765
Bonds, payable in United States dollars, due 2016-2037 .....	0.01%-8.00%	68,616	3,295
Bonds, payable in Indonesian rupiah, due 2018 .....	9.85%	8,688	8,778
Bonds, payable in Australian dollars, due 2019-2031 .....	0.01%-3.00%	1,654	90
Bonds, payable in Chinese yuan, due 2016 .....	0.00%-5.80%	—	36,365
Subordinated bonds:			
Subordinated bonds, payable in Japanese yen, due 2016-Perpetual .....	2.19%-4.15%	35,000	82,300
Total other subsidiaries .....		<u>3,031,029</u>	<u>3,058,597</u>
Total debt securities in issue .....		<u>¥11,165,623</u>	<u>¥10,829,612</u>

Interest rates represent the contractual interest rates that were applied at March 31, 2017 and 2016, and thus do not represent the actual effective interest rates.

## 20 PROVISIONS

The following table presents movements by class of provisions for the fiscal years ended March 31, 2017 and 2016.

	Provision for interest repayment	Other provisions	Total
	(In millions)		
Balance at April 1, 2015	¥ 166,715	¥ 40,909	¥ 207,624
Additional provisions	141,000	10,431	151,431
Amounts used	(78,317)	(19,176)	(97,493)
Unused amounts reversed	(735)	(339)	(1,074)
Amortization of discount and effect of change in discount rate	759	218	977
Acquisition of subsidiaries and businesses	—	929	929
Others	—	7	7
Balance at March 31, 2016	<u>229,422</u>	<u>32,979</u>	<u>262,401</u>
Additional provisions	12,000	14,743	26,743
Amounts used	(83,528)	(10,713)	(94,241)
Unused amounts reversed	(439)	(225)	(664)
Amortization of discount and effect of change in discount rate	(122)	214	92
Acquisition of subsidiaries and businesses	—	381	381
Others	—	(12)	(12)
Balance at March 31, 2017	<u>¥ 157,333</u>	<u>¥ 37,367</u>	<u>¥ 194,700</u>

### Provision for Interest Repayment

Japan has two laws restricting interest rates on loans. The Interest Rate Restriction Act sets the maximum interest rates on loans ranging from 15% to 20%. The Act Regulating the Receipt of Contributions, Receipt of Deposits and Interest Rates capped the interest rate on loans at 29.2% up to June 2010. Interest rates on loans greater than the range of 15-20% but below the maximum allowable of 29.2% were called “gray zone interest,” and many consumer lending and credit card companies were charging interest in this zone.

In January 2006, judicial decisions strictly interpreted the conditions under which consumer finance companies may retain gray zone interest. As a result, claims for refunds of gray zone interest have increased, and consumer lending and credit card companies have recorded a provision for claims for refunds of gray zone interest.

In December 2006, the Government of Japan made amendments to laws regulating money lenders to implement regulatory reforms affecting the consumer finance industry. As a result, in June 2010, the maximum legal interest rates on loans were reduced to the range of 15-20%, and gray zone interest was abolished.

The provision for interest repayment is calculated by estimating the future claims for the refund of gray zone interest, taking into account historical experience such as the number of customer claims for a refund, the amount of repayments and the characteristics of customers, and the length of the period during which claims are expected to be received in the future. Of these historical experiences, the number of customer claims for the refund has a significant effect on the amount of the provision, and the historical number of customer claims to the SMFG Group was 127 thousand, 137 thousand and 139 thousand for the fiscal years ended March 31, 2017, 2016 and 2015, respectively. The timing of the settlement of these claims is uncertain.

The decrease in the provision for interest repayment for the fiscal year ended March 31, 2017 was primarily due to the use of the provision during the year, which was partially offset by additional provisions as a result of the estimation of the future claims for the refund.

## Other Provisions

Other provisions include asset retirement obligations and provisions for reimbursement of deposits, loan commitments, product warranties and litigation claims. Most of these provisions occurred in the normal course of business and none of them were individually significant at March 31, 2017 and 2016.

## 21 OTHER LIABILITIES

Other liabilities at March 31, 2017 and 2016 consisted of the following:

	At March 31,	
	2017	2016
	(In millions)	
Accrued expenses . . . . .	¥ 291,871	¥ 258,464
Unearned income . . . . .	168,952	159,888
Financial guarantees and other credit-related contingent liabilities . . . . .	119,913	143,961
Due to trust account . . . . .	1,180,976	944,542
Payables to brokers, dealers and customers for securities transactions . . . . .	2,618,322	1,757,429
Payables related to credit card services . . . . .	563,268	522,688
Obligations from factoring transactions . . . . .	487,209	452,043
Retirement benefit liabilities . . . . .	64,972	55,509
Guarantee deposits received . . . . .	563,739	561,088
Others . . . . .	1,429,544	1,555,121
Total other liabilities . . . . .	<u>¥7,488,766</u>	<u>¥6,410,733</u>

## 22 DEFERRED INCOME TAX

The changes of net deferred tax assets and liabilities for the fiscal years ended March 31, 2017 and 2016 were as follows:

	For the fiscal year ended March 31,	
	2017	2016
	(In millions)	
At beginning of period . . . . .	¥(220,574)	¥(446,305)
Deferred tax benefit (expense) . . . . .	120,468	(125,832)
Deferred tax relating to other comprehensive income:		
Remeasurements of defined benefit plans reserve . . . . .	(2,315)	48,550
Available-for-sale financial assets reserve . . . . .	(82,619)	289,599
Exchange differences on translating foreign operations reserve . . . . .	2,545	19,024
Acquisition and disposal of subsidiaries and businesses . . . . .	(6,259)	702
Exchange differences and others . . . . .	(49,486)	(6,312)
At end of period . . . . .	<u>¥(238,240)</u>	<u>¥(220,574)</u>

The deferred tax assets and liabilities at March 31, 2017 and 2016 were attributable to the following items:

	<u>At March 31,</u>	
	<u>2017</u>	<u>2016</u>
	(In millions)	
<b>Deferred tax assets:</b>		
Loans and advances	¥ 231,971	¥ 238,665
Tax losses carried forward	98,788	29,164
Derivative financial instruments	55,989	18,024
Provision for interest repayment	40,638	12,451
Retirement benefits	21,772	19,796
Investment securities	981	1,329
Other deductible temporary differences	161,246	136,526
Total deferred tax assets	<u>611,385</u>	<u>455,955</u>
<b>Deferred tax liabilities:</b>		
Investment securities	571,489	459,478
Goodwill and intangible assets	111,145	85,759
Property, plant and equipment	91,703	51,039
Lease transactions	16,026	19,132
Retirement benefits	3,485	4,054
Other taxable temporary differences	55,777	57,067
Total deferred tax liabilities	<u>849,625</u>	<u>676,529</u>
Net deferred tax liabilities <sup>(1)</sup>	<u>¥(238,240)</u>	<u>¥(220,574)</u>

- (1) Deferred tax assets and deferred tax liabilities are offset in the consolidated statement of financial position if the entity has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

On March 31, 2015, the Government of Japan promulgated (i) an amendment to the Corporation Tax Act and (ii) the Local Tax Act. Those laws (i) reduce the Japanese national corporation tax rate by 1.6 percentage points from the fiscal year beginning April 1, 2015 and (ii) reduce the enterprise tax rate by 1.2 percentage points from the fiscal year beginning April 1, 2015 and additionally reduce it by 1.2 percentage points from the fiscal year beginning April 1, 2016. As a result, the effective statutory tax rate of SMFG was 33.1% during the fiscal year beginning April 1, 2015 and was expected to be 32.3% for the fiscal years beginning April 1, 2016.

On March 31, 2016, the Government of Japan promulgated (i) an amendment to the Corporation Tax Act and (ii) the Local Tax Act. Those laws (i) reduce the Japanese national corporation tax rate by 0.5 percentage points from the fiscal year beginning April 1, 2016 and additionally reduce by 0.2 percentage points from the fiscal year beginning April 1, 2018, and (ii) reduce the enterprise tax rate by 1.2 percentage points from the fiscal year beginning April 1, 2016. As a result, the effective statutory tax rate of SMFG during the two fiscal years beginning April 1, 2016 through March 31, 2018 is further reduced to 30.9% from 32.3% and is expected to be 30.6% for the fiscal years beginning April 1, 2018. The SMFG Group measured deferred tax assets and liabilities at the rates that were expected to apply to the period when the assets are realized or the liabilities are settled.

On December 22, 2016, SMFG applied to the Commissioner of the National Tax Agency for permission to adopt the consolidated corporate-tax system in Japan from the fiscal year beginning April 1, 2017. Accordingly, SMFG and its wholly owned domestic subsidiaries recognized the deferred tax assets based on the consolidated corporate-tax system at March 31, 2017. Under the consolidated corporate-tax system, the taxable profits or losses on a consolidated basis are calculated by aggregating those of the parent company and its wholly owned domestic subsidiaries (a “tax consolidated group”), and any unused tax losses carried forward, except for certain specified consolidated tax losses carried forward, by one company can be used by another company within the tax consolidated group for Japanese national corporation tax purposes. Therefore, the deferred tax assets relating

to deductible temporary differences and tax losses carried forward were recognized on a consolidated basis, but only to the extent that it is probable that future consolidated taxable profits will be available against which the deductible temporary differences and tax losses carried forward can be utilized. As a result, deferred tax assets increased by ¥127 billion for the fiscal year ended March 31, 2017, primarily due to the reversal of the write-down of deferred tax assets.

The deferred tax assets of SMFG and its wholly owned domestic subsidiaries, which applied the consolidated corporate-tax system, consist mainly of those for loans and advances and tax losses carried forward related to Japanese national corporation tax. The deferred tax assets for loans and advances were generally related to the accumulated losses from the impairment of these assets which would be deductible for tax purposes in future periods. SMFG and its wholly owned domestic subsidiaries consider that most of the deductible temporary differences and the tax losses carried forward will be able to be used based mainly on future taxable profits on a consolidated basis. The future taxable profits are estimated based on forecasted results of operations, which reflect historical financial performance and the business plans that management believes to be prudent and feasible. In SMFG's other subsidiaries, deferred tax assets relating to deductible temporary differences and tax losses carried forward are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and the tax losses carried forward can be utilized. No deferred tax assets were recognized in certain SMFG subsidiaries for the deductible temporary differences estimated not to be realized, or for the tax losses carried forward projected to expire due to the uncertainty of sufficient future taxable profit.

The following table shows the amounts of deductible temporary differences and tax losses carried forward by expiration date at March 31, 2017 and 2016 for which no deferred tax assets were recognized.

	<u>At March 31,</u>	
	<u>2017</u>	<u>2016</u>
	(In millions)	
Deductible temporary differences . . . . .	¥ 436,481	¥ 422,782
Tax losses carried forward which will expire in 1 year . . . . .	112,010	2,486
2 years . . . . .	251,300	112,416
3 years . . . . .	219,834	201,100
4 years . . . . .	259,636	150,003
5 years . . . . .	78,055	252,080
6 years . . . . .	168,288	70,620
7 years . . . . .	75,171	59,812
8 years . . . . .	59,230	48,712
9 years and thereafter . . . . .	19,390	38,578
Total deductible temporary differences and tax losses carried forward <sup>(1)</sup> . . . . .	<u>¥1,679,395</u>	<u>¥1,358,589</u>

(1) Under the consolidated corporate-tax system, SMFG and its wholly owned domestic subsidiaries recognized deferred tax assets relating to deductible temporary differences and tax losses carried forward on a consolidated basis for Japanese national corporation tax purposes and on a stand-alone basis for Japanese local corporation tax purposes. There are deductible temporary differences and tax losses carried forward on which deferred tax assets are recognized for Japanese national corporation tax purposes, but on which no deferred tax assets are recognized for Japanese local corporation tax purposes. These deductible temporary differences and tax losses carried forward amounted to ¥503,511 million at March 31, 2017.

In addition to the above table, the SMFG Group does not recognize deferred tax assets for deductible temporary differences related to investments in subsidiaries, associates and joint ventures where SMFG has no intention to reverse these differences in the foreseeable future. The amount of those deductible temporary differences was ¥810 billion and ¥1,159 billion at March 31, 2017 and 2016, respectively.

At March 31, 2017 and 2016, the amount of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures for which deferred tax liabilities had not been recognized was

¥1,352 billion and ¥1,283 billion, respectively. SMFG can control the timing of reversal of the temporary differences and it is probable that they will not be reversed in the foreseeable future.

Deferred tax expense for the fiscal years ended March 31, 2017 and 2016 was attributable to the following temporary differences and tax losses carried forward:

	For the fiscal year ended March 31,	
	2017	2016
	(In millions)	
Tax losses carried forward . . . . .	¥ 66,378	¥ 1,157
Property, plant and equipment . . . . .	(45,285)	228
Derivative financial instruments . . . . .	39,101	(30,588)
Provision for interest repayment . . . . .	28,186	(130)
Investment securities . . . . .	26,999	(1,075)
Loans and advances . . . . .	(10,496)	(29,582)
Retirement benefits . . . . .	3,139	(8,952)
Lease transactions . . . . .	2,389	3,879
Goodwill and intangible assets . . . . .	2,201	6,064
Other temporary differences—net . . . . .	7,856	(66,833)
Total deferred tax benefit (expense) . . . . .	<u>¥ 120,468</u>	<u>¥ (125,832)</u>

## 23 RETIREMENT BENEFITS

### Defined Benefit Plans

SMBC and some of SMFG's other subsidiaries have various defined benefit plans such as defined benefit pension plans and lump-sum severance indemnity plans, which define the amount of benefits that an employee will receive on or after retirement, usually based on one or more factors, such as age, years of service, compensation, classes and earned points based on service.

SMBC's defined benefit plans account for the vast majority of the defined benefit obligations and plan assets in the SMFG Group. SMBC has a corporate defined benefit pension plan and a lump-sum severance indemnity plan.

#### *Defined benefit pension plans*

SMBC's corporate defined benefit pension plan is a funded defined benefit pension plan, which is regulated by the Corporate Defined Benefit Pension Plan Law, one of the Japanese pension laws. Benefits are paid in exchange for services rendered by employees who worked for more than a specified period considering their years of service and the degree of their contribution to SMBC.

SMBC's pension fund is a special entity established in accordance with the pension laws, and SMBC has an obligation to make contributions to it. It has a board of directors which consists of an equal number of members elected from both the management and employees of SMBC. These board members have a fiduciary duty to administer and manage the pension fund.

The objective of SMBC's pension fund is to earn a return over the long term which is sufficient to pay future benefits to participants of the corporate defined benefit pension plan, including pension benefit plans, lump-sum indemnity plans for bereaved families, and other lump sum indemnity plans. To achieve this, SMBC's pension fund annually sets investment guidelines including asset allocation composed of equities, bonds and other appropriate financial assets according to the funding status. Investment decisions for its assets are made in accordance with these guidelines.

The Corporate Defined Benefit Pension Plan Law requires a pension fund to review the assumptions and remeasure the required contribution at least every fifth fiscal year, in order to ensure that it maintains sufficient assets for future benefit payments. On the other hand, the present value of the defined benefit obligation is calculated annually based on actuarial valuations that are dependent upon a number of assumptions, including discount rates, mortality rates and future salary (benefit) increases, in accordance with IAS 19 “Employee Benefits.” Other types of defined benefit pension plans operated by the SMFG Group are generally established and operated in the same manner as described above.

***Lump-sum severance indemnity plans***

SMBC and some of SMFG’s other subsidiaries have lump-sum severance indemnity plans under which their employees are provided with lump-sum cash payments upon leaving the company. While funding of these plans is not required under Japanese pension laws, some of these plans are funded with assets held by retirement benefit trusts.

SMBC and a number of SMFG’s other subsidiaries in Japan established retirement benefit trusts and contributed some of their marketable securities to these trusts in order to isolate these assets for retirement benefits by entering into contracts with trust banks. Retirement benefit trusts are voluntary funds that are used either to contribute assets to the pension funds or to directly settle retirement benefits. Among the SMFG Group, retirement benefit trusts are set up for the defined benefit pension plans, as well as for the lump-sum severance indemnity plans.

The assets belonging to the retirement benefit trusts are available to be used only to pay or fund retirement benefits, and practically held by an entity that is legally separated from the SMFG Group. Therefore, they are not available to the SMFG Group’s creditors even in bankruptcy and cannot be returned to the SMFG Group, unless either the remaining assets are sufficient to meet all the related obligations or the entities (funds) reimburse to the SMFG Group the retirement benefits which are already paid by the SMFG Group. Therefore, these assets are accounted for as plan assets.

The following tables provide detailed information for the defined benefit plans.

The amounts of the retirement benefit liabilities and the retirement benefit assets recognized in the consolidated statement of financial position at March 31, 2017 and 2016 were determined as follows:

	<u>At March 31,</u>	
	<u>2017</u>	<u>2016</u>
	(In millions)	
Present value of unfunded obligations . . . . .	¥ (52,494)	¥ (43,554)
Present value of funded obligations . . . . .	(1,187,290)	(1,133,536)
Fair value of plan assets . . . . .	<u>1,432,556</u>	<u>1,354,202</u>
Net retirement benefit assets (liabilities) . . . . .	<u>¥ 192,772</u>	<u>¥ 177,112</u>
Of which retirement benefit liabilities included in “Other liabilities” . . . . .	¥ (64,972)	¥ (55,509)
Of which retirement benefit assets included in “Other assets” . . . . .	¥ 257,744	¥ 232,621

The movements in the defined benefit obligations for the fiscal years ended March 31, 2017 and 2016 were as follows:

	For the fiscal year ended March 31,	
	2017	2016
	(In millions)	
At beginning of period	¥1,177,090	¥1,085,536
Current service cost	40,030	35,032
Interest cost	6,970	11,987
Actuarial losses—demographic assumptions	77,112 <sup>(1)</sup>	7,326
Actuarial losses (gains)—financial assumptions	(17,385)	75,115
Actuarial losses—experience	3,980	4,342
Benefits paid	(42,387)	(42,192)
Lump-sum payments	(11,365)	(10,543)
Past service cost	(3)	(32)
Acquisition and disposal of subsidiaries and businesses	7,096	13,360
Settlements	(621)	—
Others	(733)	(2,841)
At end of period	<u>¥1,239,784</u>	<u>¥1,177,090</u>

(1) Includes an increase due to the assumption refinement of estimate on mortality rates.

The movements in the fair value of plan assets for the fiscal years ended March 31, 2017 and 2016 were as follows:

	For the fiscal year ended March 31,	
	2017	2016
	(In millions)	
At beginning of period	¥1,354,202	¥1,418,210
Interest income	8,123	15,540
Return on plan assets excluding interest income	71,841	(67,490)
Contributions by employer	44,535	45,305
Benefits paid	(42,387)	(42,192)
Lump-sum payments	—	(24,398) <sup>(1)</sup>
Acquisition and disposal of subsidiaries and businesses	—	12,282
Settlements	(696)	—
Others	(3,062)	(3,055)
At end of period	<u>¥1,432,556</u>	<u>¥1,354,202</u>

(1) Lump-sum payments indicate the amount of assets returned to the SMFG Group from the retirement benefit trusts to reimburse the lump-sum payments already paid by the SMFG group.

The amounts recognized in “General and administrative expenses” in the consolidated income statement for the fiscal years ended March 31, 2017, 2016 and 2015 were as follows:

	For the fiscal year ended March 31,		
	2017	2016	2015
	(In millions)		
Current service cost	¥40,030	¥35,032	¥31,921
Net interest cost	(1,153)	(3,553)	(1,749)
Past service cost	(3)	(32)	60
Total	<u>¥38,874</u>	<u>¥31,447</u>	<u>¥30,232</u>



The plan assets at March 31, 2017 and 2016 were composed as follows:

	At March 31,					
	2017			2016		
	Quoted in active markets	Other	Total	Quoted in active markets	Other	Total
	(In millions)					
Plan assets retained in the pension funds:						
Equity instruments . . . . .	¥269,706	¥135,884	¥ 405,590	¥248,717	¥152,768	¥ 401,485
Debt instruments . . . . .	107,075	224,509	331,584	120,985	248,526	369,511
General account of life insurance companies . . . . .	758	66,892	67,650	—	60,431	60,431
Other investments and short-term assets . . . . .	21,970	105,490	127,460	30,884	30,482	61,366
Plan assets retained in the retirement benefit trusts:						
Japanese equity instruments . . . .	456,747	1,400	458,147	429,455	698	430,153
Other short-term assets . . . . .	32,276	9,849	42,125	26,136	5,120	31,256
Total . . . . .	<u>¥888,532</u>	<u>¥544,024</u>	<u>¥1,432,556</u>	<u>¥856,177</u>	<u>¥498,025</u>	<u>¥1,354,202</u>

The assets in the pension funds included common stocks issued by the SMFG Group at March 31, 2017 and 2016. The amounts of these stocks were not significant.

The assets in retirement benefit trusts were primarily composed of Japanese equity instruments. Most of the plan assets held by the SMFG Group are invested in Japanese equity and debt instruments. Accordingly, the SMFG Group may be exposed to market risk arising from the domestic markets.

The SMFG Group retained the voting rights of some of these equity instruments with fair values of ¥418,221 million and ¥385,959 million (29.2% and 28.5% of the total fair values of plan assets) at March 31, 2017 and 2016, respectively. The assets in retirement benefit trusts included common stocks issued by SMFG's subsidiary (The Minato Bank) with a fair value of ¥34,242 million and ¥24,991 million (2.4% and 1.8% of the total fair values of plan assets) at March 31, 2017 and 2016, respectively. The SMFG Group retained the voting rights of these stocks (40.4% of the voting rights of The Minato Bank, for all periods presented). Refer to Note 47 "Principal Subsidiaries" for further information.

The principal actuarial assumptions used at March 31, 2017, 2016 and 2015 were as follows:

	At March 31,		
	2017	2016	2015
Discount rates . . . . .	0.7%	0.6%	1.1%

Discount rates are weighted on the basis of the defined benefit obligations.

The assumptions for future mortality are based on the official mortality table generally used for actuarial assumptions in Japan. Under the mortality table used at March 31, 2017, 2016 and 2015, the current average remaining life expectancy of an individual retiring at age 60 was 23 years, 23 years, and 23 years for males, respectively, and 28 years, 28 years and 28 years for females, respectively.

The sensitivity analyses of the effect of changes in key assumptions on the defined benefit obligations at March 31, 2017 and 2016 were as follows:

	At March 31,			
	2017		2016	
	Increase/(decrease)		Increase/(decrease)	
	(In millions)			
Discount rates:				
Increase by 50 bps	¥	(71,373)	¥	(65,424)
Decrease by 50 bps		80,864		73,823
Average life expectancy at age 60:				
Increase of one year	¥	37,166	¥	36,350

Each increase and decrease in the table above assumes that only one assumption is changed, with all other assumptions remaining unchanged. In practice, however, changes in multiple assumptions may occur in a mutually interrelated manner.

The weighted average durations of defined benefit plans for the fiscal years ended March 31, 2017, 2016 and 2015 were as follows:

	At March 31,		
	2017	2016	2015
	(Years)		
Lump-sum severance indemnity plans	12.9	12.8	12.0
Defined benefit pension plans	18.2	17.6	17.2

#### ***Funding Policy for Plan Assets***

The pension funds review the funding status of plan assets every year. If any funding deficit is identified, a measure to cover such deficit will be implemented, for example, by increasing the amount of contributions by the employer.

#### ***Expected contribution***

Expected contributions to the defined benefit plans for the fiscal year ending March 31, 2018 are ¥18,631 million.

#### **Defined Contribution Plans**

Some of SMFG's subsidiaries provide defined contribution plans. The amounts recognized as expenses for the defined contribution plans were ¥9,621 million, ¥7,258 million and ¥6,463 million for the fiscal years ended March 31, 2017, 2016 and 2015, respectively, which were included in "General and administrative expenses" in the consolidated income statement.

#### **Employees' Pension Insurance Plan**

In Japan, the Government of Japan operates the Employees' Pension Insurance Plan which covers most of the private entities' employees. The amounts of contributions charged to expense for the Employees' Pension Insurance Plan were ¥43,650 million, ¥40,173 million and ¥37,574 million for the fiscal years ended March 31, 2017, 2016 and 2015, respectively, which were included in "General and administrative expenses" in the consolidated income statement.

## 24 SHAREHOLDERS' EQUITY

### Common Stock

The changes in the number of issued shares of common stock and common stock held by SMFG or its subsidiaries during the fiscal years ended March 31, 2017, 2016 and 2015 were as follows:

	For the fiscal year ended March 31,					
	2017		2016		2015	
	Outstanding	In treasury	Outstanding	In treasury	Outstanding	In treasury
At beginning of period . . . . .	1,414,055,625	46,830,882	1,414,055,625	46,814,201	1,414,055,625	46,781,669
Net change . . . . .	—	(42,801,999) <sup>(1)</sup>	—	16,681	—	32,532
At end of period . . .	<u>1,414,055,625</u>	<u>4,028,883</u>	<u>1,414,055,625</u>	<u>46,830,882</u>	<u>1,414,055,625</u>	<u>46,814,201</u>

(1) Includes a decrease of 42,820,864 shares through the sale of SMFG shares held by SMBC.

The total number of authorized shares of common stock was 3,000 million at March 31, 2017 and 2016 with no stated value. All issued shares are fully paid. The details of the stock options outstanding to subscribe for shares of SMFG common stock are described in Note 39 "Share-Based Payment."

### Preferred Stock

The following table shows the number of shares of preferred stock at March 31, 2017 and 2016.

	At March 31, 2017		At March 31, 2016	
	Authorized	Issued	Authorized	Issued
Type 5 preferred stock . . . . .	167,000	—	167,000	—
Type 7 preferred stock . . . . .	167,000	—	167,000	—
Type 8 preferred stock . . . . .	115,000	—	115,000	—
Type 9 preferred stock . . . . .	115,000	—	115,000	—

All the preferred stocks have no stated value. There was no movement in preferred stock during the fiscal years ended March 31, 2017, 2016 and 2015.

### Capital stock, Capital surplus and Treasury stock

"Capital stock" represents share capital under the Companies Act adjusted by the amount corresponding to the preferred stock which is accounted for as a liability under IFRS. Purchases of treasury stock are recognized at cost in "Treasury stock." Any additional paid-in capital, net gains or losses on the sale of treasury stock, and other changes in equity resulting from transactions with shareholders except for dividends are included in "Capital surplus."

### Restriction on the Payment of Dividends

The amount of the capital surplus and retained earnings of SMFG that can be paid out as dividends is subject to restrictions under the Companies Act. These amounts are calculated based on SMFG's nonconsolidated statement of financial position prepared in accordance with Japanese GAAP. Therefore, the adjustments made to prepare the IFRS consolidated financial statements have no impact on the calculation. The total amount that SMFG can pay out as a dividend was ¥1,612 billion at March 31, 2017.

Other than the restriction by the Companies Act, SMFG is required to maintain a risk-weighted capital ratio as per the Banking Act of Japan ("Banking Act"). The detail of the restriction is described in Note 45 "Financial Risk Management." Therefore, SMFG would not be able to pay a dividend if the ratio were to fall below the minimum amount as a result of the payment of the dividends.

Since SMFG is a holding company, its earnings rely mostly on dividend income from SMBC, and SMFG's other subsidiaries and associates. SMBC is subject to some restrictions on its dividend payment by the Companies Act and the Banking Act, similar to those applied to SMFG.

## Other Reserves

### *Remeasurements of defined benefit plans reserve*

Remeasurements of the defined benefit plans reserve includes the accumulated actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, and return on plan assets excluding interest income.

The movements of remeasurements of the defined benefit plans reserve for the fiscal years ended March 31, 2017, 2016 and 2015 were as follows:

	For the fiscal year ended March 31,		
	2017	2016	2015
	(In millions)		
At beginning of period	¥ 18,985	¥ 120,316	¥ (1,982)
Gains (losses) arising during the period, before tax	8,134	(154,273)	181,638
Income tax (expense) benefit for changes arising during the period	(2,315)	48,550	(58,081)
Amount attributable to non-controlling interests	(1,568)	3,834	(1,451)
Share of other comprehensive income (loss) of associates and joint ventures	(462)	558	192
At end of period	¥ 22,774	¥ 18,985	¥ 120,316

### *Available-for-sale financial assets reserve*

The available-for-sale financial assets reserve includes the accumulated gains and losses of available-for-sale financial assets excluding the amount reclassified to profit or loss when the assets are derecognized or impaired.

The movements of the available-for-sale financial assets reserve for the fiscal years ended March 31, 2017, 2016 and 2015 were as follows:

	For the fiscal year ended March 31,		
	2017	2016	2015
	(In millions)		
At beginning of period	¥1,756,634	¥2,234,636	¥1,397,450
Gains (losses) arising during the period, before tax	371,438	(551,572)	1,392,139
Income tax (expense) benefit for changes arising during the period	(116,277)	217,723	(381,512)
Reclassification adjustments for (gains) losses included in net profit, before tax	(109,990)	(217,529)	(232,281)
Income tax benefit for reclassification adjustments	33,658	71,876	82,628
Amount attributable to non-controlling interests	(3,971)	2,251	(25,297)
Share of other comprehensive income (loss) of associates and joint ventures	(1,598)	(751)	1,509
At end of period	¥1,929,894	¥1,756,634	¥2,234,636

***Exchange differences on translating foreign operations reserve***

Exchange differences on translating the foreign operations reserve includes foreign exchange differences arising from the translation of the net assets of foreign operations from their functional currencies to the SMFG Group's presentation currency, Japanese yen.

The movements of exchange differences on translating the foreign operations reserve for the fiscal years ended March 31, 2017, 2016 and 2015 were as follows:

	<b>For the fiscal year ended March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	(In millions)		
At beginning of period . . . . .	¥ 216,336	¥ 404,132	¥ 151,358
Gains (losses) arising during the period, before tax . . . . .	(24,063)	(219,904)	301,796
Income tax (expense) benefit for changes arising during the period . . . .	2,544	19,027	(3,015)
Reclassification adjustments for (gains) losses included in net profit, before tax . . . . .	(4)	8	(2,164)
Income tax (expense) benefit for reclassification adjustments . . . . .	1	(3)	770
Amount attributable to non-controlling interests . . . . .	6,102	26,687	(48,666)
Share of other comprehensive income (loss) of associates and joint ventures . . . . .	(19,542)	(13,611)	4,053
At end of period . . . . .	<u>¥ 181,374</u>	<u>¥ 216,336</u>	<u>¥ 404,132</u>

**25 NON-CONTROLLING INTERESTS AND EQUITY ATTRIBUTABLE TO OTHER EQUITY INSTRUMENTS HOLDERS**

**Non-controlling interests**

Non-controlling interests at March 31, 2017 and 2016 consisted of the following:

	<b>At March 31,</b>	
	<b>2017</b>	<b>2016</b>
	(In millions)	
Preferred securities issued by subsidiaries . . . . .	¥ 870,979	¥ 961,998
Others . . . . .	634,022	575,550
Total non-controlling interests . . . . .	<u>¥1,505,001</u>	<u>¥1,537,548</u>

### Preferred securities issued by subsidiaries

Preferred securities issued by subsidiaries consisted of the following:

	Redemption at the option of Issuer <sup>(1)</sup>	At March 31,	
		2017	2016
(In millions)			
SMFG Preferred Capital USD 1 Limited (non-cumulative step-up perpetual preferred securities) . . . . .	January 2017	¥ —	¥ 73,106
SMFG Preferred Capital GBP 1 Limited (non-cumulative step-up perpetual preferred securities) . . . . .	January 2017	—	11,905
SMFG Preferred Capital JPY 1 Limited (non-cumulative perpetual preferred securities) . . . . .	January 2018	135,000	135,000
SMFG Preferred Capital USD 3 Limited (non-cumulative step-up perpetual preferred securities) . . . . .	July 2018	151,456	152,037
SMFG Preferred Capital GBP 2 Limited (non-cumulative step-up perpetual preferred securities) . . . . .	January 2029	35,023	40,450
	Redemption at the option of Issuer <sup>(1)</sup>	At March 31,	
		2017	2016
(In millions)			
SMFG Preferred Capital JPY 2 Limited			
Series A (non-cumulative step-up perpetual preferred securities) . . . . .	January 2019	¥ 113,000	¥ 113,000
Series B (non-cumulative perpetual preferred securities) . . . . .	July 2019	140,000	140,000
Series E (non-cumulative perpetual preferred securities) . . . . .	July 2019	33,000	33,000
SMFG Preferred Capital JPY 3 Limited			
Series A (non-cumulative step-up perpetual preferred securities) . . . . .	January 2020	99,000	99,000
Series B (non-cumulative perpetual preferred securities) . . . . .	January 2020	164,500	164,500
Preferred securities issued by subsidiaries . . . . .		¥ 870,979	¥ 961,998

(1) Subject to the prior approval of the Financial Services Agency of Japan (“FSA”), preferred securities are redeemable at any dividend payment date on and after a specific month and the month shown in this column is such a specific month of each preferred security.

### Others

Others represent the equity in the SMFG Group’s subsidiaries not attributable, directly or indirectly, to the SMFG Group. They were not considered individually material to the SMFG Group at March 31, 2017 and 2016.

### Equity attributable to other equity instruments holders

Equity attributable to other equity instruments holders at March 31, 2017 and 2016 consisted of the following:

	At March 31,	
	2017	2016
(In millions)		
Perpetual subordinated bonds . . . . .	¥ 449,709	¥ 299,895
Total equity attributable to other equity instruments holders . . . . .	¥ 449,709	¥ 299,895

In July 2015, SMFG issued three series of perpetual subordinated bonds, which amounted to ¥300,000 million in aggregate, raising ¥299,895 million after deducting issuance costs. In January 2017, SMFG

issued a perpetual subordinated bond, which amounted to ¥150,000 million, raising ¥149,814 million after deducting issuance costs and the amount of the purchase of the bonds. These bonds are Basel III-compliant Additional Tier 1 capital instruments, and are classified as equity under IFRS.

The bonds bear a fixed rate of interest until the first call date. After the first call date, they will bear floating rate of interest unless they are redeemed. SMFG may at any time and in its sole discretion, elect to cancel any interest payment. If cancelled, interest payments are non-cumulative and will not increase to compensate for any short-fall in interest payments in any previous year.

These bonds are undated, have no final maturity date and may be redeemed at SMFG's option, in whole, but not in part, on the first call date or any interest payment dates thereafter subject to prior confirmation of the FSA.

The principal amount of the bonds may be written down upon the occurrence of certain trigger events. For example, if the Common Equity Tier 1 capital ratio falls below 5.125% ("Capital Ratio Event"), the principal amount required to fully restore the Common Equity Tier 1 capital ratio above 5.125% will be written down.

The principal amount of the bonds which has been written down due to a Capital Ratio Event may be reinstated at SMFG's option, subject to prior confirmation of the FSA of Japan that the Common Equity Tier 1 capital ratio remains at a sufficiently high level after giving effect to such reinstatement.

## 26 NET INTEREST INCOME

Net interest income for the fiscal years ended March 31, 2017, 2016 and 2015 consisted of the following:

	<b>For the fiscal year ended March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	(In millions)		
<b>Interest income from:</b>			
Deposits with banks . . . . .	¥ 45,770	¥ 40,472	¥ 41,896
Call loans and bills bought . . . . .	12,065	21,828	18,606
Reverse repurchase agreements and cash collateral on securities borrowed . . . . .	29,601	22,011	17,021
Investment securities . . . . .	87,348	84,912	82,494
Loans and advances . . . . .	<u>1,725,477</u>	<u>1,703,361</u>	<u>1,622,604</u>
Total interest income . . . . .	<u>1,900,261</u>	<u>1,872,584</u>	<u>1,782,621</u>
<b>Interest expense from:</b>			
Deposits . . . . .	249,028	202,312	165,567
Call money and bills sold . . . . .	5,286	5,583	4,014
Repurchase agreements and cash collateral on securities lent . . . . .	20,623	15,105	9,920
Borrowings . . . . .	79,835	72,203	71,037
Debt securities in issue . . . . .	146,937	135,172	119,789
Others . . . . .	<u>629</u>	<u>726</u>	<u>780</u>
Total interest expense . . . . .	<u>502,338</u>	<u>431,101</u>	<u>371,107</u>
Net interest income . . . . .	<u>¥1,397,923</u>	<u>¥1,441,483</u>	<u>¥1,411,514</u>

Interest income recorded on impaired financial assets was ¥16,892 million, ¥20,545 million and ¥23,478 million for the fiscal years ended March 31, 2017, 2016 and 2015, respectively.

## 27 NET FEE AND COMMISSION INCOME

Net fee and commission income for the fiscal years ended March 31, 2017, 2016 and 2015 consisted of the following:

	For the fiscal year ended March 31,		
	2017	2016	2015
	(In millions)		
<b>Fee and commission income from:</b>			
Loans	¥ 128,305	¥ 121,934	¥ 103,486
Credit card business	261,253	253,136	245,133
Guarantees	58,221	55,618	51,794
Securities-related business	146,655	133,019	130,164
Deposits	15,929	14,882	14,976
Remittances and transfers	138,029	133,110	129,465
Safe deposits	5,414	5,511	5,748
Trust fees	3,607	3,619	2,833
Investment trusts	126,590	116,057	147,021
Agency	16,753	16,432	16,854
Others	165,656	178,362	155,292
Total fee and commission income	<u>1,066,412</u>	<u>1,031,680</u>	<u>1,002,766</u>
<b>Fee and commission expense from:</b>			
Remittances and transfers	39,419	38,358	36,669
Guarantees	3,434	3,071	3,012
Others	138,720	89,952	89,572
Total fee and commission expense	<u>181,573</u>	<u>131,381</u>	<u>129,253</u>
Net fee and commission income	<u>¥ 884,839</u>	<u>¥ 900,299</u>	<u>¥ 873,513</u>

## 28 NET TRADING INCOME

Net trading income for the fiscal years ended March 31, 2017, 2016 and 2015 consisted of the following:

	For the fiscal year ended March 31,		
	2017	2016	2015
	(In millions)		
Interest rate	¥ 79,650	¥ 240,763	¥ 248,372
Foreign exchange	51,143	204,349	(136,708)
Equity	39,478	18,019	499
Credit	13,063	(2,641)	16,970
Others	629	2,192	(1,374)
Total net trading income	<u>¥ 183,963</u>	<u>¥ 462,682</u>	<u>¥ 127,759</u>

Net trading income includes income and losses from trading assets and liabilities, and derivative financial instruments.



## 29 NET INCOME FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Net income from financial assets at fair value through profit or loss for the fiscal years ended March 31, 2017, 2016 and 2015 consisted of the following:

	For the fiscal year ended March 31,		
	2017	2016	2015
		(In millions)	
Net income from debt instruments . . . . .	¥ 428	¥ 11,311	¥ 13,123
Net income from equity instruments . . . . .	1,590	949	9,555
Total net income from financial assets at fair value through profit or loss . . . . .	<u>¥ 2,018</u>	<u>¥ 12,260</u>	<u>¥ 22,678</u>

## 30 NET INVESTMENT INCOME

Net investment income for the fiscal years ended March 31, 2017, 2016 and 2015 consisted of the following:

	For the fiscal year ended March 31,		
	2017	2016	2015
		(In millions)	
Net gain from disposal of debt instruments . . . . .	¥ 39,484	¥ 71,641	¥ 45,193
Net gain from disposal of equity instruments . . . . .	142,016	175,494	190,570
Dividend income . . . . .	123,827	128,094	135,301
Total net investment income . . . . .	<u>¥ 305,327</u>	<u>¥ 375,229</u>	<u>¥ 371,064</u>

## 31 OTHER INCOME

Other income for the fiscal years ended March 31, 2017, 2016 and 2015 consisted of the following:

	For the fiscal year ended March 31,		
	2017	2016	2015
		(In millions)	
Income from operating leases . . . . .	¥ 250,460	¥ 206,561	¥ 179,632
Income related to disposal of assets leased . . . . .	152,564	155,280	183,590
Income related to IT solution services . . . . .	37,678	33,991	35,506
Gains on disposal of property, plant and equipment, and other intangible assets . . . . .	937	3,714	538
Reversal of impairment losses of investments in associates and joint ventures . . . . .	—	4,847	—
Gains on step acquisition of subsidiaries . . . . .	20,344	118	—
Gains on step acquisition of associates and joint ventures . . . . .	—	1,714	37,997
Others . . . . .	111,842	90,048	88,642
Total other income . . . . .	<u>¥ 573,825</u>	<u>¥ 496,273</u>	<u>¥ 525,905</u>

### 32 IMPAIRMENT CHARGES ON FINANCIAL ASSETS

Impairment charges on financial assets for the fiscal years ended March 31, 2017, 2016 and 2015 consisted of the following:

	For the fiscal year ended March 31,		
	2017	2016	2015
		(In millions)	
Loans and advances <sup>(1)</sup> . . . . .	¥ 141,457	¥ 118,750	¥ 79,552
Available-for-sale financial assets . . . . .	71,510	29,606	10,586
Total impairment charges on financial assets . . . . .	¥ 212,967	¥ 148,356	¥ 90,138

(1) Cross-reference to provision for loan losses in the table of reconciliation of allowance for loan losses in Note 10 “Loans and Advances.”

### 33 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the fiscal years ended March 31, 2017, 2016 and 2015 consisted of the following:

	For the fiscal year ended March 31,		
	2017	2016	2015
		(In millions)	
Personnel expenses . . . . .	¥ 833,755	¥ 785,547	¥ 749,480
Depreciation and amortization . . . . .	172,496	157,672	146,233
Rent and lease expenses . . . . .	115,425	117,482	116,745
Building and maintenance expenses . . . . .	10,657	13,966	10,068
Supplies expenses . . . . .	16,694	16,628	14,865
Communication expenses . . . . .	37,250	36,634	35,126
Publicity and advertising expenses . . . . .	79,570	79,453	68,481
Taxes and dues . . . . .	85,967	76,695	67,913
Outsourcing expenses . . . . .	96,063	91,837	91,189
Premiums for deposit insurance . . . . .	38,180	36,175	56,789
Office equipment expenses . . . . .	49,127	47,621	47,318
Others . . . . .	216,951	246,553	217,690
Total general and administrative expenses . . . . .	¥1,752,135	¥1,706,263	¥1,621,897

### 34 OTHER EXPENSES

Other expenses for the fiscal years ended March 31, 2017, 2016 and 2015 consisted of the following:

	For the fiscal year ended March 31,		
	2017	2016	2015
		(In millions)	
Cost of operating leases . . . . .	¥ 126,320	¥ 95,440	¥ 87,206
Cost related to disposal of assets leased . . . . .	140,255	140,083	171,707
Cost related to IT solution services and IT systems . . . . .	92,247	90,563	84,300
Provision for interest repayment . . . . .	11,439	141,024	64,195
Losses on disposal of property, plant and equipment, and other intangible assets . . . . .	6,041	4,302	6,703
Impairment losses of property, plant and equipment . . . . .	6,396	4,237	5,108
Impairment losses of intangible assets . . . . .	74,788	1,278	4
Losses on sale of investments in subsidiaries and associates . . . . .	—	24	2,221
Impairment losses of investments in associates and joint ventures . . . . .	14,941	17,306	4,631
Others . . . . .	59,332	44,706	79,539
Total other expenses . . . . .	<u>¥ 531,759</u>	<u>¥ 538,963</u>	<u>¥ 505,614</u>

### 35 INCOME TAX EXPENSE

The detail of income tax expense for the fiscal years ended March 31, 2017, 2016 and 2015 was as follows:

	For the fiscal year ended March 31,		
	2017	2016	2015
		(In millions)	
<b>Current tax:</b>			
Charge for period . . . . .	¥ 260,234	¥ 247,046	¥ 322,838
<b>Deferred tax:</b>			
Origination and reversal of temporary differences . . . . .	12,391	130,072	19,378
Change in the write-down of deferred tax assets on the current fiscal year income tax expense . . . . .	(132,859)	(34,000)	(7,240)
Changes in Japanese corporation tax rates <sup>(1)</sup> . . . . .	—	29,760	74,971
Total deferred tax expense (benefit) . . . . .	<u>(120,468)</u>	<u>125,832</u>	<u>87,109</u>
Total income tax expense . . . . .	<u>¥ 139,766</u>	<u>¥ 372,878</u>	<u>¥ 409,947</u>

(1) See Note 22 “Deferred Income Tax” for further information on changes in Japanese corporation tax rates.

The following table shows the reconciliations of the effective income tax rates for the fiscal years ended March 31, 2017, 2016 and 2015.

	<b>For the fiscal year ended March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(In millions, except percentages)</b>		
Profit before tax . . . . .	¥880,352	¥1,325,700	¥1,132,908
Income tax expense . . . . .	139,766	372,878	409,947
Effective income tax rate . . . . .	15.9%	28.1%	36.2%
Statutory tax rate in Japan <sup>(1)</sup> . . . . .	30.9%	33.1%	35.6%
Effect of the change in the write-down of deferred tax assets on the current fiscal year income tax expense <sup>(2)</sup> . . . . .	(15.1%)	(2.6%)	(0.6%)
Tax impact of impairment losses of goodwill . . . . .	2.6%	—	—
Non-Japanese earnings . . . . .	(1.9%)	(2.7%)	(3.8%)
Tax impact of share of post-tax (profit) loss in associates and joint ventures . . . . .	(1.0%)	(0.8%)	(0.5%)
Nontaxable dividends received . . . . .	(1.0%)	(0.5%)	(2.4%)
Gains on step acquisition of subsidiaries and associates and joint ventures which were not taxable . . . . .	(0.7%)	—	(0.1%)
Tax impact of impairment losses and reversal of impairment losses for investments in associates and joint ventures—net . . . . .	0.5%	0.3%	0.2%
Changes in Japanese corporation tax rates . . . . .	—	2.2%	6.6%
Others—net . . . . .	1.6%	(0.9%)	1.2%
Effective income tax rate . . . . .	<u>15.9%</u>	<u>28.1%</u>	<u>36.2%</u>

- (1) The statutory tax rate in Japan for the fiscal year ended March 31, 2017 is the aggregate of the effective corporation tax rate of 23.4%, the effective local corporation tax rate of 1.0%, the effective inhabitant tax rate of 3.8% and the effective enterprise tax rate of 2.7%, which is payable by corporate entities on taxable profits under the tax laws in Japan. The effective corporation tax rate was changed from 22.5% and 23.7% which were applied to the fiscal years ended March 31, 2016 and 2015, respectively. The effective inhabitant tax rate was changed from 3.7% and 4.9% which were applied to the fiscal years ended March 31, 2016 and 2015, respectively. The effective enterprise tax rate was changed from 5.9% and 7.0% which were applied to the fiscal years ended March 31, 2016 and 2015, respectively.
- (2) The effect for the fiscal year ended March 31, 2017 was primarily due to the reversal of the write-down of deferred tax assets at March 31, 2017 in accordance with the application to the Commissioner of the National Tax Agency for permission to adopt the consolidated corporate-tax system in Japan from the fiscal year beginning April 1, 2017. For further information, see Note 22 “Deferred Income Tax.”

### 36 EARNINGS PER SHARE

The following table shows the income and share data used in the basic and diluted earnings per share calculations for the fiscal years ended March 31, 2017, 2016 and 2015.

	For the fiscal year ended March 31,		
	2017	2016	2015
	(In millions, except number of shares and per share data)		
<b>Basic:</b>			
Profit attributable to shareholders of SMFG	¥ 627,870	¥ 843,920	¥ 614,070
Weighted average number of common stock in issue (in thousands of shares)	1,369,231	1,367,229	1,367,258
Basic earnings per share	¥ 458.56	¥ 617.25	¥ 449.13
<b>Diluted:</b>			
Profit attributable to the common shareholders of SMFG	¥ 627,870	¥ 843,920	¥ 614,070
Impact of dilutive potential ordinary shares issued by subsidiaries	(11)	(1)	(1)
Net profit used to determine diluted earnings per share	¥ 627,859	¥ 843,919	¥ 614,069
Weighted average number of common stock in issue (in thousands of shares)	1,369,231	1,367,229	1,367,258
Adjustments for stock options (in thousands of shares)	1,093	928	816
Weighted average number of common stock for diluted earnings per share (in thousands of shares)	1,370,324	1,368,157	1,368,074
Diluted earnings per share	¥ 458.18	¥ 616.83	¥ 448.86

### 37 TRANSFERS OF FINANCIAL ASSETS

In the normal course of business, the SMFG Group transfers financial assets mainly through repurchase agreements, securities lending transactions and securitizations. Depending on the nature of the transactions, the transfers may either result in financial assets being derecognized or continuing to be recognized on the consolidated statement of financial position.

Full derecognition occurs when the SMFG Group transfers its contractual rights to receive cash flows from financial assets, or retains the contractual rights to receive the cash flows, but assumes a contractual obligation to pay the cash flows to another party, and transfers substantially all the risks and rewards of ownership, including credit risk, prepayment risk and interest rate risk. Derecognition does not occur when the SMFG Group retains substantially all the risks and rewards of ownership of the financial assets, where the contractual rights to receive cash flows from the financial assets are transferred, or the rights are retained but obligations to pay the cash flows are assumed.

The following tables show the carrying amounts and fair values of transferred financial assets that did not qualify for derecognition and their associated financial liabilities at March 31, 2017 and 2016:

	At March 31, 2017			
	Repurchase agreements and securities lending transactions	Loans and advances		
		Residential mortgages	Corporate loans	Others
(In millions)				
Carrying amount of assets . . . . .	¥ 5,169,540	¥ 1,353,938	¥ 1,063,092	¥ 59,562
Carrying amount of associated liabilities . . . . .	5,116,003	1,079,329	1,060,812	49,804
For those liabilities that have recourse only to the transferred assets:				
Fair value of assets . . . . .	¥ —	¥ 1,535,929	¥ 1,067,234	¥ 59,169
Fair value of associated liabilities . . . . .	—	1,138,815	1,061,389	50,271
Net position . . . . .	¥ —	¥ 397,114	¥ 5,845	¥ 8,898
At March 31, 2016				
	Repurchase agreements and securities lending transactions	Loans and advances		
		Residential mortgages	Corporate loans	Others
(In millions)				
Carrying amount of assets . . . . .	¥ 3,779,078	¥ 1,278,100	¥ 1,045,161	¥ 62,853
Carrying amount of associated liabilities . . . . .	3,793,528	1,027,050	1,041,981	49,509
For those liabilities that have recourse only to the transferred assets:				
Fair value of assets . . . . .	¥ —	¥ 1,469,579	¥ 1,049,491	¥ 63,584
Fair value of associated liabilities . . . . .	—	1,099,771	1,042,590	49,778
Net position . . . . .	¥ —	¥ 369,808	¥ 6,901	¥ 13,806

### Repurchase Agreements and Securities Lending Transactions

The SMFG Group lends or sells securities under agreements to repurchase them at a predetermined price on a future date. Since substantially all the risks and rewards of the securities are retained by the SMFG Group, the securities remain on the consolidated statement of financial position and their associated financial liabilities are recorded. The recourse of the counterparties to their associated financial liabilities is not limited to the underlying securities.

### Loans and Advances

The SMFG Group transfers its loans and advances, including residential mortgages and corporate loans, mainly to bankruptcy-remote structured entities for securitizations whereby the structured entities issue debt securities to the SMFG Group for subordinated tranches and to investors for senior tranches. The investors have only recourse to the underlying financial assets due to their bankruptcy-remoteness. Since the SMFG Group retains substantially all the risks and rewards of ownership, the transferred financial assets do not qualify for derecognition. The SMFG Group therefore continues to recognize these transferred financial assets as loans and advances, and recognizes their associated financial liabilities arising from issuing debt securities to investors on the consolidated statement of financial position.

## 38 ASSETS PLEDGED AND RECEIVED AS COLLATERAL

### Assets Pledged

The carrying amounts of assets pledged as collateral at March 31, 2017 and 2016 were as follows:

	At March 31,	
	2017	2016
	(In millions)	
Cash and deposits with banks	¥ 87,670	¥ 91,690
Trading assets	2,426,665	2,544,777
Financial assets at fair value through profit or loss	1,570,904	1,570,904
Held-to-maturity investments	1,168,111	1,991,865
Available-for-sale financial assets	8,128,082	8,078,808
Loans and advances	10,058,951	2,856,201
Other assets	1,308,136	1,082,073
Total	<u>¥24,748,519</u>	<u>¥18,216,318</u>

The SMFG Group pledges assets as collateral to secure payables under repurchase agreements, securities lending transactions and securitizations, borrowings or for cash settlements, margins on derivative transactions and certain other purposes. These transactions are conducted under terms that are usual and customary to standard contracts.

Unsecured loaned securities for which the borrowers have the right to sell or repledge were ¥5,201,373 million and ¥3,785,582 million at March 31, 2017 and 2016, respectively.

For the reserve funds with the Bank of Japan and other reserve deposits for foreign offices maintained by the SMFG Group, refer to Note 5 “Cash and Deposits with Banks.”

### Assets Received as Collateral

Under certain transactions, including reverse repurchase agreements, securities borrowing, and discounting of bills, the SMFG Group is permitted to resell or repledge the collateral held in the absence of default by the owner of the collateral. These transactions are conducted under terms that are usual and customary for standard contracts. The fair values of securities and bills accepted as collateral were ¥13,673,077 million and ¥11,947,873 million at March 31, 2017 and 2016, respectively. As to the securities received in the reverse repurchase agreements and securities borrowing transactions, the SMFG Group has the obligation to return equivalent securities upon completion of the transactions. The fair value of securities sold or repledged to others was ¥7,787,059 million and ¥7,369,021 million at March 31, 2017 and 2016, respectively.

### 39 SHARE-BASED PAYMENT

SMFG had introduced compensation-type stock options to directors, corporate auditors, and executive officers of SMFG and SMBC (“SMFG Stock Acquisition Rights”), which served as an incentive for them to further contribute to the equity appreciation and achieve better corporate performance through sharing the benefits and risks of the share price performance with the shareholders. The following table provides an overview of the significant terms and conditions of the stock option plan.

	<u>Title of grantees</u>	<u>Exercise period</u>	<u>Requisite service period</u>	<u>Method of settlement</u>
SMFG Stock Acquisition Rights . . . . .	Directors, corporate auditors and executive officers of SMFG and SMBC	Not exceeding 30 years from the date of allocation of stock acquisition rights <sup>(1)</sup>	One year from the date of the ordinary general meeting of shareholders of SMFG to the closing of the next ordinary general meeting of shareholders of SMFG	Common stock of SMFG

(1) A stock acquisition rights holder can exercise the rights from the day they are relieved of their positions either as a director, a corporate auditor or an executive officer (“Start of Exercise Date”) to 20 years from the Start of Exercise Date.

The number and the weighted average exercise prices of stock options for the fiscal years ended on March 31, 2017 and 2016 were as follows:

	<u>For the fiscal year ended March 31,</u>			
	<u>2017</u>		<u>2016</u>	
	<u>Number of options<sup>(1)</sup></u>	<u>Weighted average exercise price</u>	<u>Number of options<sup>(1)</sup></u>	<u>Weighted average exercise price</u>
Outstanding at beginning of period . . . . .	984,400	¥ 1	873,200	¥ 1
Granted . . . . .	201,200	1	132,400	1
Exercised . . . . .	(4,400)	1	(20,400)	1
Forfeited or expired . . . . .	(1,200)	1	(800)	1
Outstanding at end of period . . . . .	<u>1,180,000</u>	<u>¥ 1</u>	<u>984,400</u>	<u>¥ 1</u>
Exercisable at end of period . . . . .	421,900	¥ 1	346,300	¥ 1

(1) Number of options is the number of SMFG’s common stock granted by the exercise of stock options.

The weighted average stock price at the date of exercise was ¥4,400 and ¥4,361 for the fiscal years ended March 31, 2017 and 2016, respectively.

Summarized information about stock options outstanding at March 31, 2017 and 2016 was as follows:

	<u>Exercise price</u>	<u>At March 31,</u>			
		<u>2017</u>		<u>2016</u>	
		<u>Number of options</u>	<u>Remaining contractual lives in years</u>	<u>Number of options</u>	<u>Remaining contractual lives in years</u>
SMFG Stock Acquisition Rights . . . . .	¥ 1	1,180,000	26.3	984,400	26.7

The amounts of stock options recognized as expenses were measured based on the fair value of stock options granted, which were ¥581 million and ¥595 million for the fiscal years ended March 31, 2017 and 2016, respectively, and included in “General and administrative expenses” in the consolidated income statement. The fair value of stock options was measured using Black-Scholes option-pricing model.



The following table represents the fair value of stock options and the assumptions used to measure the fair value.

	For the fiscal year ended March 31,			
	2017		2016	
Fair value at measurement date	¥	2,811	¥	4,904
Stock price	¥	3,362	¥	5,473
Exercise price	¥	1	¥	1
Expected volatility <sup>(1)</sup>		32.20%		27.38%
Expected remaining lives (in years) <sup>(2)</sup>		4		4
Expected dividends per share <sup>(3)</sup>	¥	150	¥	150
Risk free interest rate <sup>(4)</sup>		0.17%		0.05%

(1) Calculated based on the actual stock prices during the 4 years from August 16, 2012 to August 15, 2016 and August 19, 2011 to August 18, 2015 for the fiscal years ended March 31, 2017 and 2016, respectively.

(2) The average expected remaining life could not be estimated rationally due to insufficient amount of data. Therefore, it was estimated based on average remaining service life of directors of SMFG and SMBC.

(3) Expected dividends are based on the estimated dividends to be paid in next twelve months from the date of grant.

(4) Japanese government bond yield corresponding to the average expected remaining life.

#### 40 DIVIDENDS PER SHARE

The dividends recognized by the SMFG Group for the fiscal years ended March 31, 2017, 2016 and 2015 were as follows:

	Dividends per share (In yen)	Aggregate amount (In millions)
For the fiscal year ended March 31, 2017:		
Common stock	¥150	¥205,083
For the fiscal year ended March 31, 2016:		
Common stock	¥155	¥211,922
For the fiscal year ended March 31, 2015:		
Common stock	¥125	¥170,908

SMFG proposed to the shareholders the distribution of a dividend of ¥75 per share of common stock totaling ¥105,752 million in respect of the fiscal year ended March 31, 2017. The dividend is subject to the approval at the general meeting of shareholders on June 29, 2017. The consolidated financial statements for the fiscal year ended March 31, 2017 do not include this dividend.

#### 41 CONTINGENCY AND CAPITAL COMMITMENTS

##### Legal Proceedings

The SMFG Group is engaged in various legal proceedings in Japan and a number of overseas jurisdictions, involving claims by and against it, which arise in the normal course of business. The SMFG Group does not expect that the outcome of these proceedings will have a significant adverse effect on the consolidated financial statements of the SMFG Group. The SMFG Group has recorded adequate provisions with respect to litigation arising out of normal business operations. The SMFG Group has not disclosed any contingent liability associated with these legal actions because it cannot reliably be estimated.

##### Capital Commitments

At March 31, 2017 and 2016, the SMFG Group had ¥2,773,096 million and ¥2,798,483 million, respectively, of contractual commitments to acquire property, plant and equipment including aircraft for leasing

business. The contractual commitments to purchase aircraft are based upon fixed price agreements with the manufacturers, an element of which are adjusted for inflation and include price escalation formulas, but are also subject to agreed price concessions where applicable. In addition, the SMFG Group had ¥317 million and ¥1,733 million of contractual commitments to acquire intangible assets, such as software at March 31, 2017 and 2016, respectively. The SMFG Group's management is confident that future net revenues and funding will be sufficient to cover these commitments.

### Loan Commitments

Loan commitment contracts on overdrafts and loans are agreements to lend up to a prescribed amount to customers, as long as there is no violation of any condition established in the contracts. Since many of these loan commitments are expected to expire without being drawn down, the total amount of unused commitments does not necessarily represent an actual future cash flow requirement. Many of these loan commitments include clauses under which the SMFG Group can reject an application from customers or reduce the contract amounts in cases where economic conditions change, the SMFG Group needs to secure claims, or some other significant event occurs.

### Financial Guarantees and Other Credit-related Contingent Liabilities

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of the debt instrument. Other credit-related contingent liabilities include performance bonds, which are contracts that provide compensation if another party fails to perform the contractual obligation.

The table below shows the nominal amounts of undrawn loan commitments, and financial guarantees and other credit-related contingent liabilities at March 31, 2017 and 2016.

	<u>At March 31,</u>	
	<u>2017</u>	<u>2016</u>
	(In millions)	
Loan commitments .....	¥62,357,210	¥58,026,597
Financial guarantees and other credit-related contingent liabilities .....	<u>7,924,711</u>	<u>7,349,903</u>
Total .....	<u>¥70,281,921</u>	<u>¥65,376,500</u>

## 42 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT BASIS

After initial recognition, financial assets and liabilities are measured either at fair value or amortized cost, within the measurement categories as defined in IAS 39. The summary of significant accounting policies in Note 2 describes how these categories of financial assets and liabilities are measured, and how income and expenses are recognized either in profit or loss, or in other comprehensive income. The following tables present the carrying amounts of the financial assets and liabilities, by category and by line item, of the consolidated statement of financial position.

At March 31, 2017						
	Financial assets and liabilities at fair value through profit or loss	Held-to-maturity investments	Loans and receivables	Available-for-sale financial assets	Financial liabilities measured at amortized cost	Total
(In millions)						
<b>Financial assets:</b>						
Cash and deposits with banks <sup>(1)</sup> . . . . .	¥ 5,511	¥ —	¥ 47,324,644	¥ —	¥ —	¥ 47,330,155
Call loans and bills bought . . . . .	—	—	1,872,209	—	—	1,872,209
Reverse repurchase agreements and cash collateral on securities borrowed . . . . .	—	—	8,924,385	—	—	8,924,385
Trading assets . . . . .	3,776,671	—	—	—	—	3,776,671
Derivative financial instruments . . . . .	4,063,982	—	—	—	—	4,063,982
Financial assets at fair value through profit or loss . . . . .	1,599,093	—	—	—	—	1,599,093
Investment securities <sup>(1)</sup> . . . . .	1,251	1,173,419	—	17,899,267	—	19,073,937
Loans and advances <sup>(1)</sup> . . . . .	3,474	—	95,270,371	—	—	95,273,845
Other financial assets <sup>(2)</sup> . . . . .	—	—	3,424,591	—	—	3,424,591
Total . . . . .	¥ 9,449,982	¥ 1,173,419	¥ 156,816,200	¥ 17,899,267	¥ —	¥ 185,338,868
<b>Financial liabilities:</b>						
Deposits <sup>(1)</sup> . . . . .	¥ 20,365	¥ —	¥ —	¥ —	¥ 130,274,925	¥ 130,295,290
Call money and bills sold . . . . .	—	—	—	—	2,088,020	2,088,020
Repurchase agreements and cash collateral on securities lent . . . . .	—	—	—	—	9,424,506	9,424,506
Trading liabilities . . . . .	2,071,584	—	—	—	—	2,071,584
Derivative financial instruments . . . . .	3,889,694	—	—	—	—	3,889,694
Borrowings <sup>(1)</sup> . . . . .	654	—	—	—	12,245,289	12,245,943
Debt securities in issue <sup>(1)</sup> . . . . .	2,232	—	—	—	11,163,391	11,165,623
Other financial liabilities <sup>(2)</sup> . . . . .	—	—	—	—	7,201,137	7,201,137
Total . . . . .	¥ 5,984,529	¥ —	¥ —	¥ —	¥ 172,397,268	¥ 178,381,797

At March 31, 2016

	Financial assets and liabilities at fair value through profit or loss	Held-to-maturity investments	Loans and receivables	Available-for-sale financial assets	Financial liabilities measured at amortized cost	Total
(In millions)						
<b>Financial assets:</b>						
Cash and deposits with banks <sup>(1)</sup> . . . . .	¥ 6,384	¥ —	¥ 43,138,270	¥ —	¥ —	¥ 43,144,654
Call loans and bills bought . . . . .	—	—	1,291,366	—	—	1,291,366
Reverse repurchase agreements and cash collateral on securities borrowed . . . . .	—	—	8,236,516	—	—	8,236,516
Trading assets . . . . .	3,615,092	—	—	—	—	3,615,092
Derivative financial instruments . . . . .	5,290,825	—	—	—	—	5,290,825
Financial assets at fair value through profit or loss . . . . .	1,611,877	—	—	—	—	1,611,877
Investment securities <sup>(1)</sup> . . . . .	310	2,267,542	—	17,597,495	—	19,865,347
Loans and advances <sup>(1)</sup> . . . . .	4,610	—	88,857,761	—	—	88,862,371
Other financial assets <sup>(2)</sup> . . . . .	—	—	2,764,315	—	—	2,764,315
<b>Total</b> . . . . .	<b>¥ 10,529,098</b>	<b>¥ 2,267,542</b>	<b>¥ 144,288,228</b>	<b>¥ 17,597,495</b>	<b>¥ —</b>	<b>¥ 174,682,363</b>
<b>Financial liabilities:</b>						
Deposits <sup>(1)</sup> . . . . .	¥ 23,697	¥ —	¥ —	¥ —	¥ 125,917,100	¥ 125,940,797
Call money and bills sold . . . . .	—	—	—	—	1,220,456	1,220,456
Repurchase agreements and cash collateral on securities lent . . . . .	—	—	—	—	6,839,474	6,839,474
Trading liabilities . . . . .	2,197,673	—	—	—	—	2,197,673
Derivative financial instruments . . . . .	5,086,083	—	—	—	—	5,086,083
Borrowings <sup>(1)</sup> . . . . .	1,198	—	—	—	9,912,931	9,914,129
Debt securities in issue <sup>(1)</sup> . . . . .	(8,045)	—	—	—	10,837,657	10,829,612
Other financial liabilities <sup>(2)</sup> . . . . .	—	—	—	—	5,935,511	5,935,511
<b>Total</b> . . . . .	<b>¥ 7,300,606</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ 160,663,129</b>	<b>¥ 167,963,735</b>

(1) Embedded derivatives, which are separately accounted for, but presented together with the host contract in the consolidated statement of financial position, are disclosed in this table within the category of “Financial assets and liabilities at fair value through profit or loss.” Although the separated embedded derivatives may have a positive or a negative fair value, they have been presented in this table as assets or liabilities to be consistent with the line of the host contract.

(2) Other financial assets and liabilities comprise of those included in other assets and liabilities, which meet the definition of a financial asset and liability.

### **43 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values stated below represent the best estimates based on a range of methods and assumptions. In determining the fair value of financial assets and liabilities, the SMFG Group gives the highest priority to a quoted market price in an active market. If such prices are not available, it establishes fair value using valuation techniques. The valuation techniques, if used, make maximum use of observable inputs, and rely as little as possible on unobservable inputs.

#### **Financial Assets and Liabilities Carried at Fair Value**

##### ***Valuation Process***

The SMFG Group undertakes a valuation process based on its valuation control framework, which governs internal control standards, methodologies and procedures to ensure that the fair values are determined or validated independently of the front office.

The SMFG Group uses valuation techniques commonly used by market participants to price the financial instruments and they have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. The valuation techniques include the DCF method, option pricing models and reference to the current fair value of another instrument that is substantially the same. Key adjustments, such as liquidity risk and credit risk adjustments are also taken into account to derive fair values.

Where valuation techniques are used to determine fair values, they are validated and reviewed. In principal subsidiaries, their risk management departments, which are independent from the business units, review significant valuation methodologies at least once a year, and recalibrate model parameters and inputs by comparing fair values derived from the valuation techniques to the external market data such as broker quotes. Where the data obtained from third-party sources such as brokers and pricing service providers are utilized in determining fair values, those departments also examine those data, taking into account the consistency among the different sources, the aging of the data and other factors. In addition, accounting departments in those principal subsidiaries are responsible for ensuring that the accounting policies and procedures to determine fair values are in compliance with relevant accounting standards.

##### ***Fair Value Hierarchy***

Financial assets and liabilities measured at fair value are classified into one of three levels within a fair value hierarchy based on the inputs used in the fair value measurement. The three levels of the fair value hierarchy are as follows:

- quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2); and
- significant unobservable inputs for the asset or liability (Level 3).

The following tables present the carrying amounts of financial assets and liabilities carried at fair value based on the three levels of the fair value hierarchy at March 31, 2017 and 2016.

	At March 31, 2017			
	Level 1 <sup>(2)</sup>	Level 2 <sup>(2)</sup>	Level 3	Total
	(In millions)			
<b>Financial assets:</b>				
Trading assets:				
Debt instruments	¥ 2,734,340	¥ 605,588	¥ —	¥ 3,339,928
Equity instruments	421,477	15,266	—	436,743
Total trading assets	3,155,817	620,854	—	3,776,671
Derivative financial instruments:				
Interest rate derivatives	27,121	2,288,114	2	2,315,237
Currency derivatives	—	1,666,305	22	1,666,327
Equity derivatives	35,400	23,668	1,327	60,395
Commodity derivatives	489	11,190	—	11,679
Credit derivatives	—	7,613	2,731	10,344
Total derivative financial instruments	63,010	3,996,890	4,082	4,063,982
Financial assets at fair value through profit or loss:				
Debt instruments	—	1,570,904	12,053	1,582,957
Equity instruments	1,667	183	14,286	16,136
Total financial assets at fair value through profit or loss	1,667	1,571,087	26,339	1,599,093
Available-for-sale financial assets:				
Japanese government bonds	5,722,674	—	—	5,722,674
U.S. Treasury and other U.S. government agency bonds	3,468,263	—	—	3,468,263
Other debt instruments	466,901	2,465,406	526	2,932,833
Equity instruments	4,075,944	864,552	836,252	5,776,748
Total available-for-sale financial assets	13,733,782	3,329,958	836,778	17,900,518
Others <sup>(1)</sup>	—	8,985	—	8,985
Total	¥16,954,276	¥ 9,527,774	¥ 867,199	¥27,349,249
<b>Financial liabilities:</b>				
Trading liabilities:				
Debt instruments	¥ 1,979,564	¥ 58,766	¥ —	¥ 2,038,330
Equity instruments	18,848	14,406	—	33,254
Total trading liabilities	1,998,412	73,172	—	2,071,584
Derivative financial instruments:				
Interest rate derivatives	17,903	2,187,701	—	2,205,604
Currency derivatives	19	1,588,004	21	1,588,044
Equity derivatives	44,593	32,604	—	77,197
Commodity derivatives	513	9,978	—	10,491
Credit derivatives	—	8,358	—	8,358
Total derivative financial instruments	63,028	3,826,645	21	3,889,694
Others <sup>(1)</sup>	—	23,554	(303)	23,251
Total	¥ 2,061,440	¥ 3,923,371	¥ (282)	¥ 5,984,529

	At March 31, 2016			
	Level 1 <sup>(2)</sup>	Level 2 <sup>(2)</sup>	Level 3	Total
	(In millions)			
<b>Financial assets:</b>				
Trading assets:				
Debt instruments	¥ 2,513,327	¥ 660,982	¥ —	¥ 3,174,309
Equity instruments	440,686	97	—	440,783
Total trading assets	2,954,013	661,079	—	3,615,092
Derivative financial instruments:				
Interest rate derivatives	99,437	3,228,377	—	3,327,814
Currency derivatives	17	1,899,201	51	1,899,269
Equity derivatives	11,992	20,697	199	32,888
Commodity derivatives	678	23,837	—	24,515
Credit derivatives	—	6,339	—	6,339
Total derivative financial instruments	112,124	5,178,451	250	5,290,825
Financial assets at fair value through profit or loss:				
Debt instruments	—	1,570,904	11,667	1,582,571
Equity instruments	1,555	157	27,594	29,306
Total financial assets at fair value through profit or loss	1,555	1,571,061	39,261	1,611,877
Available-for-sale financial assets:				
Japanese government bonds	6,528,575	—	—	6,528,575
U.S. Treasury and other U.S. government agency bonds	2,246,130	—	—	2,246,130
Other debt instruments	819,353	2,753,830	2,022	3,575,205
Equity instruments	3,801,218	657,351	789,326	5,247,895
Total available-for-sale financial assets	13,395,276	3,411,181	791,348	17,597,805
Others <sup>(1)</sup>	—	10,994	—	10,994
Total	¥16,462,968	¥10,832,766	¥ 830,859	¥28,126,593
<b>Financial liabilities:</b>				
Trading liabilities:				
Debt instruments	¥ 2,138,362	¥ 46,046	¥ —	¥ 2,184,408
Equity instruments	6,611	6,654	—	13,265
Total trading liabilities	2,144,973	52,700	—	2,197,673
Derivative financial instruments:				
Interest rate derivatives	99,163	3,177,635	—	3,276,798
Currency derivatives	—	1,714,545	46	1,714,591
Equity derivatives	26,512	33,438	212	60,162
Commodity derivatives	891	22,867	—	23,758
Credit derivatives	—	7,640	3,134	10,774
Total derivative financial instruments	126,566	4,956,125	3,392	5,086,083
Others <sup>(1)</sup>	—	15,610	1,240	16,850
Total	¥ 2,271,539	¥ 5,024,435	¥ 4,632	¥ 7,300,606

- (1) Embedded derivatives are separately accounted for, but presented together with the host contract in the consolidated statement of financial position. In this table, the embedded derivatives whose host contracts are carried at amortized cost are presented within Others, while the remaining are presented within the same category as the host contract. Although the separated embedded derivatives may have a positive or a negative fair value, they have been presented in this table as assets or liabilities to be consistent with the host contract. The separated embedded derivatives are measured at fair value using the valuation techniques described in “Derivative financial instruments” below.
- (2) Transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of the period. There were no significant transfers between Level 1 and Level 2 for the fiscal years ended March 31, 2017 and 2016.

The following tables present reconciliations from the beginning to the ending balances for financial assets and liabilities carried at fair value and categorized within Level 3 of the fair value hierarchy for the fiscal years ended March 31, 2017 and 2016.

	Total gains (losses)						Transfers into Level 3 <sup>(2)</sup>	Transfers out of Level 3 <sup>(2)</sup>	At March 31, 2017	Changes in unrealized gains (losses) included in profit or loss related to assets and liabilities held at March 31, 2017
	At April 1, 2016	Included in profit or loss	Included in other comprehensive income	Purchases	Sales	Settlement <sup>(1)</sup>				
(In millions)										
Derivative financial instruments—net:										
Interest rate derivatives—net	¥ —	¥ (163)	¥ —	¥ 165	¥ —	¥ —	¥ —	¥ —	¥ 2	¥ (5)
Currency derivatives—net	5	(21)	—	—	—	—	—	17	1	(3)
Equity derivatives—net	(13)	931	—	356	—	—	—	53	1,327	973
Credit derivatives—net	(3,134)	12,821	221	—	—	(7,177)	—	—	2,731	12,820
Total derivative financial instruments—net	(3,142)	13,568	221	521	—	(7,177)	—	70	4,061	13,785
Financial assets at fair value through profit or loss:										
Debt instruments	11,667	401	—	180	—	(195)	—	—	12,053	401
Equity instruments	27,594	174	—	4,531	(1,430)	(16,000)	—	(583)	14,286	(404)
Total financial assets at fair value through profit or loss	39,261	575	—	4,711	(1,430)	(16,195)	—	(583)	26,339	(3)
Available-for-sale financial assets:										
Debt instruments	2,022	(1,258)	(30)	269	—	(477)	—	—	526	(1,181)
Equity instruments	789,326	(20,578)	51,027	88,686	(8,488)	(63,768)	306	(259)	836,252	(25,746)
Total available-for-sale financial assets	791,348	(21,836)	50,997	88,955	(8,488)	(64,245)	306	(259)	836,778	(26,927)
Others <sup>(3)</sup> —liabilities:	(1,240)	1,543	—	—	—	—	—	—	303	(202)
Total	¥ 826,227	¥ (6,150)	¥ 51,218	¥ 94,187	¥ (9,918)	¥ (87,617)	¥ 306	¥ (772)	¥ 867,481	¥ (13,347)

	Total gains (losses)						Transfers into Level 3 <sup>(2)</sup>	Transfers out of Level 3 <sup>(2)</sup>	At March 31, 2016	Changes in unrealized gains (losses) included in profit or loss related to assets and liabilities held at March 31, 2016
	At April 1, 2015	Included in profit or loss	Included in other comprehensive income	Purchases	Sales	Settlement <sup>(1)</sup>				
(In millions)										
Derivative financial instruments—net:										
Currency derivatives—net	¥ —	¥ 44	¥ —	¥ —	¥ (39)	¥ —	¥ —	¥ —	¥ 5	¥ 43
Equity derivatives—net	173	253	—	82	(521)	—	—	—	(13)	278
Credit derivatives—net	6,356	(1,577)	289	—	—	(8,202)	—	—	(3,134)	(1,577)
Total derivative financial instruments—net	6,529	(1,280)	289	82	(560)	(8,202)	—	—	(3,142)	(1,256)
Financial assets at fair value through profit or loss:										
Debt instruments	38,518	6,881	—	195	(33,877)	(50)	—	—	11,667	1,770
Equity instruments	126,914	(1,146)	—	3,836	(1,222)	(100,104)	90	(774)	27,594	(1,140)
Total financial assets at fair value through profit or loss	165,432	5,735	—	4,031	(35,099)	(100,154)	90	(774)	39,261	630
Available-for-sale financial assets:										
Debt instruments	7,086	14	(160)	166	—	(5,084)	—	—	2,022	15
Equity instruments	914,802	28,730	(80,287)	84,896	(62,463)	(93,759)	242	(2,835)	789,326	(9,611)
Total available-for-sale financial assets	921,888	28,744	(80,447)	85,062	(62,463)	(98,843)	242	(2,835)	791,348	(9,596)
Others <sup>(3)</sup> —liabilities:	(1,212)	(29)	—	—	—	—	—	1	(1,240)	(720)
Total	¥ 1,092,637	¥ 33,170	¥ (80,158)	¥ 89,175	¥ (98,122)	¥ (207,199)	¥ 332	¥ (3,608)	¥ 826,227	¥ (10,942)

- (1) Settlements for equity instruments include redemption of preferred stocks, receipt of cash distributions which represent a return of investment, and reclassification from available-for-sale equity instruments to investments in associates and joint ventures as a result of applying the equity method.
- (2) Transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of the period.
- (3) Embedded derivatives are separately accounted for, but presented together with the host contract in the consolidated statement of financial position. In this table, the embedded derivatives whose host contracts are carried at amortized cost are presented within Others. Although the separated embedded derivatives may have a positive or a negative fair value, they have been presented in this table as assets or liabilities to be consistent with the host contract.



The following table presents total gains or losses included in profit or loss for the Level 3 financial assets and liabilities, and changes in unrealized gains or losses included in profit or loss related to those financial assets and liabilities held at March 31, 2017 and 2016 by line item of the consolidated income statement.

	Total gains (losses) included in profit or loss for the fiscal year ended March 31,		Changes in unrealized gains (losses) included in profit or loss related to assets and liabilities held at March 31,	
	2017	2016	2017	2016
	(In millions)			
Net interest income . . . . .	¥ 524	¥ 204	¥ 322	¥ —
Net trading income (loss) . . . . .	14,474	(1,025)	13,148	(1,486)
Net income (loss) from financial assets at fair value through profit or loss . . . . .	575	5,735	(3)	630
Net investment income . . . . .	7,394	35,424	—	—
Other income . . . . .	—	2,939	—	—
Impairment charges on financial assets . . . . .	(29,117)	(10,107)	(26,814)	(10,086)
Total . . . . .	<u>¥ (6,150)</u>	<u>¥ 33,170</u>	<u>¥(13,347)</u>	<u>¥(10,942)</u>

### ***Valuation Techniques***

Financial instruments which are classified as trading assets and liabilities, derivative financial instruments, financial assets at fair value through profit or loss, and available-for-sale financial assets are measured at fair value in the consolidated statement of financial position. These instruments are measured at fair value using a quoted market price, if they are traded in an active market, or, for others, using the fair value measurement techniques as discussed below.

#### *Trading assets and trading liabilities*

Debt and equity instruments traded in an active market are measured at fair value using a quoted market price in such a market and they are categorized within Level 1. If a quoted market price is not available, they are measured by using a price quoted by a third party, such as a pricing service or broker, or by reference to the current fair value of another instrument that is substantially the same, based on inputs such as prices obtained from brokers, observable interest rates and spreads. These financial instruments are categorized within Level 2. Debt instruments measured at fair value using the DCF method, where primary inputs are observable interest rates and credit spreads, inferred from the prevailing market rates, are also categorized within Level 2.

#### *Derivative financial instruments (including embedded derivatives)*

Listed derivatives (including interest rates, bonds, currencies, stocks and commodities) are measured at fair value using the settlement price announced by the major exchange on which transactions are traded because the settlement price in the exchange reflects the most current transaction price, and is readily and regularly available from the exchange. Listed derivatives are categorized within Level 1.

OTC derivatives (non-exchange-traded derivatives), including embedded derivatives that are separately accounted for from the host contracts, are measured at fair value using valuation techniques such as the present value of estimated future cash flows and option pricing models, generally based on observable interest rates, foreign exchange, commodities, stock prices and other factors as inputs. The valuation models for some transactions, such as yield curve spread options and equity options, use inputs which are not directly observable in the market, including historical correlation coefficients and historical volatilities. However, as the impact of

these unobservable inputs is insignificant to the fair value for most of the transactions, the SMFG Group categorizes the majority of those transactions within Level 2.

The credit loss protection scheme which the SMFG Group offers to Goldman Sachs (“GS”) is considered to be a credit derivative, where the underlying reference entities are the American and European corporate entities covered in the commitment line portfolio of the GS group. The fair value of this derivative is determined using an ordinary collateralized debt obligation (“CDO”) pricing model, commonly used in the financial markets. The SMFG Group takes some portions of the positions in subordinated and mezzanine tranches, which covers the first and second credit losses from the portfolio. The major inputs for this derivative are credit default swap (“CDS”) spread rates, correlation ratios of CDS indices for similar portfolios, and the expected additional commitment withdrawal ratio. Although CDS spread rates and correlation ratios are observable in an active market or available from brokers, this whole scheme is categorized within Level 3 as the expected additional withdrawal ratio, which is considered to be a significant input, is not observable in the market.

In addition, the fair value of OTC derivatives incorporates both counterparty credit risk in relation to OTC derivative assets and own credit risk in relation to OTC derivative liabilities. The SMFG Group calculates the credit risk adjustments by applying the probability of default that reflects the counterparty’s or its own credit risk to the OTC derivative exposures and multiplying the result by the loss expected in the event of default. For the probability of default, the SMFG Group uses observable market data, where possible. The OTC derivative exposures used are determined taking into consideration the effect of master netting agreements and collateral. As the SMFG Group manages the OTC derivatives on the basis of its net credit risk exposure, the credit risk adjustments of those OTC derivatives are measured on a portfolio basis in accordance with the exception set forth in IFRS 13.

#### *Financial assets at fair value through profit or loss*

The majority of instruments in this category are debt instruments measured at fair value, using a valuation technique based on the observable prices in the market and they are categorized within Level 2.

Some equity and debt instruments in this category are hybrid instruments which have both equity and debt features. These include preferred stocks which are measured at fair value using the Monte Carlo Simulation valuation model, if they are indexed to the market prices in a stock exchange. The valuation model uses the historical volatility of the listed stocks as an input, which are not observable in the market, resulting in these instruments being categorized within Level 3. Other types of preferred stocks and other non-hybrid equity instruments are evaluated using valuation techniques for unlisted stocks, which are normally used for private equity investments. The SMFG Group calculates the fair values of these instruments based on the market approach using market multiples or others in which significant unobservable inputs are used. These instruments are categorized within Level 3.

#### *Available-for-sale financial assets*

Debt instruments are measured at fair value using a quoted market price and categorized within Level 1 if they are traded in an active market. Debt instruments are categorized within Level 2 if they are measured at fair value using a price quoted by a third party, such as a pricing service or broker, or by reference to the current fair value of another bond that is substantially the same based on inputs such as prices obtained from brokers, observable interest rates and spreads. Some debt instruments are measured at fair value using the DCF method in which significant unobservable inputs are used, and categorized within Level 3.

As for equity instruments, listed stocks are measured at fair value based on the market price at a stock exchange and categorized within Level 1 if they are traded in an active market. Unlisted common and preferred stocks in this category are measured at fair value using valuation techniques, similar to those described in “Financial assets at fair value through profit or loss” above. Publicly traded investment trusts and funds are

measured at fair value using the market price and are categorized within Level 1 if they are traded in an active market. Instruments whose prices are not available in the market, such as privately offered investment trusts, are measured at fair value based on the unit price, which is usually regarded as an exit price, obtained from the fund administrator or investment management firm. In such a case, these investment trusts and funds are categorized within Level 2. Other investment funds, such as private equity and real estate investment funds, are generally measured at fair value based on net asset value, which includes significant unobservable inputs. These funds are categorized within Level 3.

### ***Significant Unobservable Inputs***

The following tables present quantitative information about significant unobservable inputs used in fair value measurement for Level 3 financial assets and liabilities at March 31, 2017 and 2016.

				<b>At March 31, 2017</b>	
<b>Fair value</b>	<b>Valuation technique(s)<sup>(1)</sup></b>	<b>Significant unobservable inputs<sup>(1)</sup></b>	<b>Range of inputs<sup>(1)</sup></b>		
				<b>(In millions)</b>	
<b>Financial assets:</b>					
Derivative financial instruments:					
Interest derivatives . . . . .	¥ 2	Option model	Interest rate volatility	4%	
Currency derivatives . . . . .	22	Option model	Foreign exchange volatility	9%-17%	
Equity derivatives . . . . .	1,327	Option model	Equity volatility	20%-49%	
			Equity to equity correlation	44%-93%	
Credit derivatives . . . . .	2,731	CDO pricing model	Additional withdrawal ratio	49%	
Financial assets at fair value through profit or loss:					
Debt instruments . . . . .	12,053	Monte Carlo Simulation	Equity volatility	16%-26%	
Equity instruments . . . . .	14,286	Market multiples	Price/Earnings multiple	10.3x-30.2x	
			EV/EBITDA multiple	8.1x	
			Liquidity discount	0%-20%	
		See note (2) below	—	—	
Available-for-sale financial assets:					
Debt instruments . . . . .	526	DCF method	Discount margin	9%	
Equity instruments . . . . .	836,252	Market multiples	Price/Book value multiple	0.3x-2.0x	
			Price/Earnings multiple	8.7x-42.6x	
			EV/EBITDA multiple	5.0x-14.8x	
			Liquidity discount	20%	
		Monte Carlo Simulation	Equity volatility	20%-51%	
		Net asset value <sup>(3)</sup>	—	—	
		See note (2) below	—	—	
<b>Financial liabilities:</b>					
Derivative financial instruments:					
Currency derivatives . . . . .	¥ 21	Option model	Foreign exchange volatility	9%-17%	
Others <sup>(4)</sup> . . . . .	(303)	Option model	Equity volatility	24%-64%	
			Equity to equity correlation	44%-93%	
			Interest rate to interest rate correlation	14%-100%	

At March 31, 2016

Fair value	Valuation technique(s) <sup>(1)</sup>	Significant unobservable inputs <sup>(1)</sup>	Range of inputs <sup>(1)</sup>
(In millions)			
<b>Financial assets:</b>			
Derivative financial instruments:			
Currency derivatives . . . . .	¥ 51	Option model	Foreign exchange volatility
Equity derivatives . . . . .	199	Option model	Equity volatility
			Equity to equity correlation
Financial assets at fair value			
through profit or loss:			
Debt instruments . . . . .	11,667	Monte Carlo Simulation	Equity volatility
Equity instruments . . . . .	27,594	Market multiples	Price/Earnings multiple
			EV/EBITDA multiple
			Liquidity discount
		See note (2) below	—
Available-for-sale financial assets:			
Debt instruments . . . . .	2,022	DCF method	Discount margin
Equity instruments . . . . .	789,326	Market multiples	Price/Book value multiple
			Price/Earnings multiple
			EV/EBITDA multiple
			Price/Embedded value multiple
			Liquidity discount
		Monte Carlo Simulation	Equity volatility
		Net asset value <sup>(3)</sup>	—
		See note (2) below	—
<b>Financial liabilities:</b>			
Derivative financial instruments:			
Currency derivatives . . . . .	¥ 46	Option model	Foreign exchange volatility
Equity derivatives . . . . .	212	Option model	Equity volatility
Credit derivatives . . . . .	3,134	CDO pricing model	Additional withdrawal ratio
Others <sup>(4)</sup> . . . . .	1,240	Option model	Equity volatility
			Equity to equity correlation
			Interest rate to interest rate correlation

- (1) Valuation techniques and unobservable inputs for insignificant Level 3 financial assets and liabilities are excluded.
- (2) Fair values of certain equity instruments such as unlisted stocks are estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects and other factors. A range of key inputs is not provided in the table as it is not practical to do so given the nature of such valuation techniques.
- (3) The SMFG Group has determined that the net asset value represents fair values of certain investment funds.
- (4) Embedded derivatives are separately accounted for, but presented together with the host contract in the consolidated statement of financial position. In this table, the embedded derivatives whose host contracts are carried at amortized cost are presented within Others. Although the separated embedded derivatives may have a positive or a negative fair value, they have been presented in this table as assets or liabilities to be consistent with the host contract.

### *Volatility*

Volatility represents a measure of how much a particular instrument, parameter or index is expected to change in value over time. The volatilities used in the valuation of some type of derivative instruments with optionality refer to the potential change in price or level of the underlying interest rates, foreign exchange rates or equity instruments. The volatilities of underlying listed stocks are used in the valuation of preferred stocks containing optionality. These volatilities are estimated based on historical data or information provided by third-party sources, together with other analytical techniques. In general, a significant increase in the volatility in isolation would result in a significantly higher fair value measurement.

### *Correlation*

Correlation represents a measure of the relationship between the movements of two variables, which is expressed as a number between plus and minus one. A positive correlation indicates that two variables move in

the same direction while a negative correlation indicates that they move in opposite directions. Interest rate correlation refers to the correlation between two interest rates of different tenors, whereas equity correlation refers to the correlation between stock price movements of different stocks. These correlations are used in the valuation techniques of complex derivatives and estimated based on historical data. In general, a significant increase in the correlation in isolation would result in either a significantly higher or lower fair value measurement, depending on the terms of the instruments.

#### *Additional withdrawal ratio*

Additional withdrawal ratio represents the expected additional withdrawal ratio of unfunded commitment lines in the reference portfolio (mainly revolving credit facilities for commercial paper backup) concerning the credit loss protection scheme offered to GS. The expected additional withdrawal ratio is estimated based on historical data of actual funded amounts at default for similar portfolios. In general, a significant increase in the additional withdrawal ratio in isolation would have a significant unfavorable impact (i.e., an increase in derivative liabilities or a decrease in derivative assets) on the fair value measurement.

#### *Price/Earnings, price/book value and price/embedded value multiples*

Price/Earnings (“P/E”) multiple represents the ratio of the equity value to the net income, while price/book value (“P/B”) multiple represents the ratio of the equity value to the book value. Embedded value, which takes into account the future cash flows in addition to the net asset value, was applied instead of the book value for a certain unlisted company. These multiples are estimated based on comparable listed companies. In general, a significant increase in the P/E multiple, P/B multiple or price/embedded value multiple in isolation would result in a significantly higher fair value measurement.

#### *EV/EBITDA multiple*

EV/EBITDA multiple represents the ratio of the enterprise value (“EV”) to earnings before interest, taxes, depreciation and amortization (“EBITDA”), where the EV is the aggregate value of equity and debt minus cash and cash equivalents. The multiple is estimated based on comparable listed companies. In general, a significant increase in the EV/EBITDA multiple in isolation would result in a significantly higher fair value measurement.

#### *Liquidity discount*

A liquidity discount is primarily applied in the valuation techniques for unlisted stocks to reflect the fact that these stocks are not actively traded. In general, a significant increase in the liquidity discount in isolation would result in a significantly lower fair value measurement.

#### *Discount margin*

Discount margin represents a spread used in estimating future cash flows in a DCF method to reflect the uncertainty of the cash flows that market participants would consider. In general, a significant increase in the discount margin in isolation would result in a significantly lower fair value measurement.

### *Sensitivity Analysis*

The fair value of certain financial assets and liabilities are measured using valuation techniques based on inputs such as prices and rates that are not observable in the market. The following tables present the impact of the valuation sensitivity, if these inputs fluctuate to the extent deemed reasonable and the volatility of such inputs has a significant impact on the fair value.

	At March 31, 2017				
	Total fair value measured using valuation techniques	Effect recorded in profit or loss		Effect recorded directly in equity	
		Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
	(In millions)				
<b>Financial assets:</b>					
Derivative financial instruments:					
Interest rate derivatives .....	¥ 2	¥ 7	¥ 2	¥ —	¥ —
Currency derivatives .....	22	93	1	—	—
Equity derivatives .....	1,327	199	254	—	—
Credit derivatives .....	2,731	6,706	15,730	—	—
Financial assets at fair value through profit or loss:					
Debt instruments .....	12,053	244	26	—	—
Equity instruments .....	14,286	99	99	—	—
Available-for-sale financial assets:					
Debt instruments .....	526	—	—	13	13
Equity instruments .....	836,252	—	—	24,785	24,137
<b>Financial liabilities:</b>					
Derivative financial instruments:					
Currency derivatives .....	¥ 21	¥ 2	¥ 92	¥ —	¥ —
Others <sup>(1)</sup> .....	(303)	1,121	1,716	—	—

At March 31, 2016					
	Total fair value measured using valuation techniques	Effect recorded in profit or loss		Effect recorded directly in equity	
		Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
(In millions)					
<b>Financial assets:</b>					
Derivative financial instruments:					
Currency derivatives	¥ 51	¥ 175	¥ 1	¥ —	¥ —
Equity derivatives	199	104	65	—	—
Financial assets at fair value through profit or loss:					
Debt instruments	11,667	—	—	—	—
Equity instruments	27,594	240	225	—	—
Available-for-sale financial assets:					
Debt instruments	2,022	—	—	123	107
Equity instruments	789,326	—	—	20,286	19,682
<b>Financial liabilities:</b>					
Derivative financial instruments:					
Currency derivatives	¥ 46	¥ 4	¥ 172	¥ —	¥ —
Equity derivatives	212	212	705	—	—
Credit derivatives	3,134	3,176	21,196	—	—
Others <sup>(1)</sup>	1,240	3,321	878	—	—

(1) Embedded derivatives are separately accounted for, but presented together with the host contract in the consolidated statement of financial position. In this table, the embedded derivatives whose host contracts are carried at amortized cost are presented within Others. Although the separated embedded derivatives may have a positive or a negative fair value, they have been presented in this table as assets or liabilities to be consistent with the host contract.

*Derivative financial instruments (including embedded derivatives)*

With respect to the credit loss protection scheme offered to GS, the anticipated losses will vary significantly depending on the expected additional withdrawal ratio of unfunded commitment lines in the reference portfolio. The tables above present the estimates of the impact of changing the expected additional withdrawal ratio from an optimistic (favorable) scenario to a pessimistic (unfavorable) scenario. For the other derivative instruments, including embedded derivatives that are separately accounted for from host contracts, that use correlation or volatility in the valuation techniques, the impact resulting from using a reasonable range of those inputs is estimated where it is expected to be significant.

*Financial assets at fair value through profit or loss / Available-for-sale financial assets*

With respect to preferred stocks convertible into listed stocks, for which historical volatilities of related listed stocks are used in the valuation techniques, the impact resulting from using a reasonable range for the volatility is statistically estimated where it is expected to be significant. With respect to unlisted stocks which are measured at fair value based on a market approach, the impact of changing the market multiples within a reasonable range ( $\pm 10\%$ ) is estimated. Certain investment funds classified as available-for-sale equity instruments are measured at fair value determined based on net asset value per share, which includes significant unobservable inputs. Since those funds are managed by value at risk (“VaR”) based on historical gain or loss data, the impact of the valuation sensitivity is estimated using a one-day VaR of the portfolio.

## Financial Assets and Liabilities Not Carried at Fair Value

The tables below present the carrying amounts and fair values by level within the fair value hierarchy, as described in “Financial Assets and Liabilities Carried at Fair Value—Fair Value Hierarchy,” of financial assets and liabilities not carried at fair value on the SMFG Group’s consolidated statement of financial position at March 31, 2017 and 2016.

		At March 31, 2017				
Notes	Carrying amount	Fair value				
		Total	Level 1	Level 2	Level 3	
(In millions)						
<b>Financial assets:</b>						
Cash and deposits with banks . . . . .	a	¥ 47,330,155	¥ 47,330,763	¥ 46,244,819	¥ 1,085,944	¥ —
Call loans and bills bought:						
Call loans . . . . .	a	1,860,620	1,860,539	—	1,860,539	—
Bills bought . . . . .	a	11,589	11,567	—	11,567	—
Reverse repurchase agreements and cash collateral on securities borrowed . . . . .						
	a	8,924,385	8,926,312	—	8,926,312	—
Investment securities:						
Held-to-maturity investments . . .	b	1,173,419	1,180,319	1,180,319	—	—
Loans and advances . . . . .	a	95,273,845	98,053,056	—	348,691	97,704,365
Other financial assets . . . . .	a	3,424,591	3,421,172	—	3,255,765	165,407
<b>Financial liabilities:</b>						
Deposits:						
Non-interest-bearing deposits, demand deposits and deposits at notice . . . . .						
	c	¥ 81,465,816	¥ 81,466,078	—	¥81,466,078	—
Other deposits . . . . .	c	48,829,474	48,831,229	—	48,831,229	—
Call money and bills sold:						
Call money . . . . .	c	2,088,020	2,088,067	—	2,088,067	—
Bills sold . . . . .	c	—	—	—	—	—
Repurchase agreements and cash collateral on securities lent . . . . .						
	c	9,424,506	9,424,506	—	9,424,506	—
Borrowings . . . . .	c	12,245,943	12,318,246	—	12,306,066	12,180
Debt securities in issue . . . . .	c	11,165,623	11,329,967	—	11,257,502	72,465
Other financial liabilities . . . . .	c	7,201,137	7,200,488	—	7,080,575	119,913



At March 31, 2016

Notes	Carrying amount	Fair value				
		Total	Level 1	Level 2	Level 3	
(In millions)						
<b>Financial assets:</b>						
Cash and deposits with banks . . . . .	a	¥ 43,144,654	¥ 43,143,523	¥ 42,126,966	¥ 1,016,557	—
Call loans and bills bought:						
Call loans . . . . .	a	1,283,758	1,283,925	—	1,283,925	—
Bills bought . . . . .	a	7,608	7,600	—	7,600	—
Reverse repurchase agreements and cash collateral on securities borrowed . . . . .	a	8,236,516	8,236,532	—	8,236,532	—
Investment securities:						
Held-to-maturity investments . . .	b	2,267,542	2,284,167	2,284,167	—	—
Loans and advances . . . . .	a	88,862,371	91,821,054	—	379,871	91,441,183
Other financial assets . . . . .	a	2,764,315	2,760,963	—	2,594,415	166,548

**Financial liabilities:**

Deposits:

Non-interest-bearing deposits, demand deposits and deposits at notice . . . . .	c	¥ 75,198,427	¥ 75,199,277	—	¥75,199,277	—
Other deposits . . . . .	c	50,742,370	50,753,241	—	50,753,241	—
Call money and bills sold:						
Call money . . . . .	c	1,220,456	1,220,455	—	1,220,455	—
Bills sold . . . . .	c	—	—	—	—	—
Repurchase agreements and cash collateral on securities lent . . . . .	c	6,839,474	6,839,474	—	6,839,474	—
Borrowings . . . . .	c	9,914,129	10,058,456	—	10,052,176	6,280
Debt securities in issue . . . . .	c	10,829,612	11,042,995	—	10,993,728	49,267
Other financial liabilities . . . . .	c	5,935,511	5,935,212	—	5,791,251	143,961

Notes:

- a. (i) The carrying amounts of deposits with banks without maturity and loans with no specified repayment dates represent a reasonable estimate of fair value, considering the nature of these financial instruments.
- (ii) Financial assets with a remaining maturity of six months or less: The carrying amounts represent a reasonable estimate of fair value.
- (iii) Financial assets with a remaining maturity of more than six months: Except for impaired loans and advances, the fair values are mostly determined using discounted cash flow models taking into account certain factors including counterparties' credit ratings, pledged collateral, and market interest rates. The fair values of impaired loans and advances are generally determined by discounting the estimated future cash flows over the time period they are expected to be recovered, and may be based on the appraisal value of underlying collateral as appropriate.
- Note that some of the financial assets in this category include embedded derivatives, which are separately accounted for, but presented together with the host contract.
- b. The fair values for held-to-maturity investments are determined using quoted prices in active markets.
- c. (i) The carrying amounts of demand deposits and deposits without maturity represent a reasonable estimate of fair value, considering the nature of these financial instruments.
- (ii) Financial liabilities with a remaining maturity of six months or less: The carrying amounts represent a reasonable estimate of fair value.
- (iii) Financial liabilities with a remaining maturity of more than six months: The fair values are, in principle, based on the present values of future cash flows calculated using the refinancing rate applied to the same type of instruments for similar remaining maturities. The fair values of debt securities in issue are based on the present values of future cash flows calculated using the rate derived from yields of bonds issued by SMBC and publicly offered subordinated bonds published by securities firms.
- Note that some of the financial liabilities in this category include embedded derivatives, which are separately accounted for, but presented together with the host contract.

#### 44 OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

The following tables present the information about the impact of offsetting of financial assets and liabilities in the consolidated statement of financial position in accordance with the criteria described in Note 2 “Summary of Significant Accounting Policies,” as well as the impact of netting of financial instruments that are subject to enforceable master netting arrangements or similar agreements but do not qualify for the offsetting criteria at March 31, 2017 and 2016.

At March 31, 2017						
Gross amounts of recognized financial assets and liabilities	Gross amounts offset in statement of financial position <sup>(1)</sup>	Net amounts presented in statement of financial position	Related amounts not offset in statement of financial position <sup>(2)</sup>			Net amounts
			Financial instruments <sup>(3)</sup>	Cash collateral		
(In millions)						
<b>Financial assets<sup>(4)</sup>:</b>						
Reverse repurchase agreements and cash collateral on securities borrowed . . . . .						
¥ 9,660,288	¥ (735,903)	¥ 8,924,385	¥ (8,889,400)	¥ —		¥ 34,985
Derivative financial instruments . . . . .	5,178,409	(1,114,427)	4,063,982	(2,227,109)	(318,106)	1,518,767
Total . . . . .	¥14,838,697	¥ (1,850,330)	¥ 12,988,367	¥(11,116,509)	¥ (318,106)	¥1,553,752
<b>Financial liabilities<sup>(4)</sup>:</b>						
Repurchase agreements and cash collateral on securities lent . . . . .						
¥10,160,409	¥ (735,903)	¥ 9,424,506	¥ (9,410,305)	¥ —		¥ 14,201
Derivative financial instruments . . . . .	5,178,911	(1,289,217)	3,889,694	(2,208,039)	(719,483)	962,172
Total . . . . .	¥15,339,320	¥ (2,025,120)	¥ 13,314,200	¥(11,618,344)	¥ (719,483)	¥ 976,373
At March 31, 2016						
Gross amounts of recognized financial assets and liabilities	Gross amounts offset in statement of financial position <sup>(1)</sup>	Net amounts presented in statement of financial position	Related amounts not offset in statement of financial position <sup>(2)</sup>			Net amounts
			Financial instruments <sup>(3)</sup>	Cash collateral		
(In millions)						
<b>Financial assets<sup>(4)</sup>:</b>						
Reverse repurchase agreements and cash collateral on securities borrowed . . . . .						
¥ 8,467,868	¥ (231,352)	¥ 8,236,516	¥ (8,226,208)	¥ —		¥ 10,308
Derivative financial instruments . . . . .	6,826,303	(1,535,478)	5,290,825	(3,098,883)	(367,063)	1,824,879
Total . . . . .	¥15,294,171	¥ (1,766,830)	¥ 13,527,341	¥(11,325,091)	¥ (367,063)	¥1,835,187
<b>Financial liabilities<sup>(4)</sup>:</b>						
Repurchase agreements and cash collateral on securities lent . . . . .						
¥ 7,070,826	¥ (231,352)	¥ 6,839,474	¥ (6,830,800)	¥ —		¥ 8,674
Derivative financial instruments . . . . .	6,671,250	(1,585,167)	5,086,083	(3,102,895)	(656,294)	1,326,894
Total . . . . .	¥13,742,076	¥ (1,816,519)	¥ 11,925,557	¥ (9,933,695)	¥ (656,294)	¥1,335,568

- (1) Amounts offset for derivative financial instruments include cash collateral.
- (2) The amounts of financial instruments and cash collateral have been limited to the net amounts presented in the consolidated statement of financial position so as not to include any over-collateralization.
- (3) Financial instruments include non-cash collateral at fair value.
- (4) Financial assets and liabilities include amounts that are both subject to and not subject to enforceable master netting arrangements or similar agreements.

The “Gross amounts offset in statement of financial position” column in the above tables represents the impact of offsetting of financial assets and liabilities in the consolidated statement of financial position in accordance with the offsetting criteria. The SMFG Group presents financial assets and liabilities on a net basis in the consolidated statement of financial position only if it currently has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis or realize the asset and settle the liability simultaneously.

The “Related amounts not offset in statement of financial position” column comprises (1) financial assets and liabilities subject to netting arrangements, such as the International Swaps and Derivatives Association’s (“ISDA”) Master Agreement, master repurchase agreements and master securities lending agreements, which allow all the outstanding transactions with a particular counterparty to be set off only if the event of default or other predetermined events occur, and (2) cash and non-cash collateral related to those transactions.

#### **45 FINANCIAL RISK MANAGEMENT**

The SMFG Group classifies risks into the following categories: credit risk, market risk, liquidity risk and operational risk (including processing risk and system risk). This note presents information about the SMFG Group’s exposure to credit risk, market risk, and liquidity risk, and its policies and processes for measuring and managing these risks.

On April 1, 2017, the SMFG Group introduced Group-wide business units and a Group Chief Officers system (“CxO system”). In addition, the SMFG Group transitioned to a company with three statutory committees: a nominating committee, an audit committee and a compensation committee from a board of corporate auditors governance system, following approval at its ordinary general meeting of shareholders held on June 29, 2017. In connection with the foregoing, the SMFG Group changed its risk management system, including by introducing a Group Chief Risk Officer who reports to the board of directors and its internal committees and conducting various meetings for business executions to centrally identify and manage risks. The following information regarding the SMFG Group’s risk management system is presented as of March 31, 2017. The SMFG Group will disclose its risk management system information in accordance with the new structure beginning with the fiscal year ending March 31, 2018.

##### **Risk Management System**

The SMFG Group has established a basic approach to be employed in risk management, which is included in the manual entitled Policies on Comprehensive Risk Management. The fundamental principles are as follows:

- *Risk management on a Group-wide basis.* Various risks taken at the SMFG Group companies are managed on a consolidated basis according to the nature of each company’s business and significance, in conformity with the relevant laws and regulations.
- *Risk management based on quantification.* The risks are quantitatively managed according to the relevant risk characteristics after specifying the scope of quantification.
- *Ensuring consistency with the business strategy.* Risk management is to be consistent with the business strategy.
- *System for check and balance.* A risk management framework is developed to ensure effective check and balance function for business operations.
- *Measures for emergencies and critical situations.* Necessary measures are developed by assuming situations and scenarios as to materialization of risk which would have a significant impact on the business and financial management of the SMFG Group.
- *Verification of the actual situation.* The actual risk management process is verified by the Internal Audit Unit.

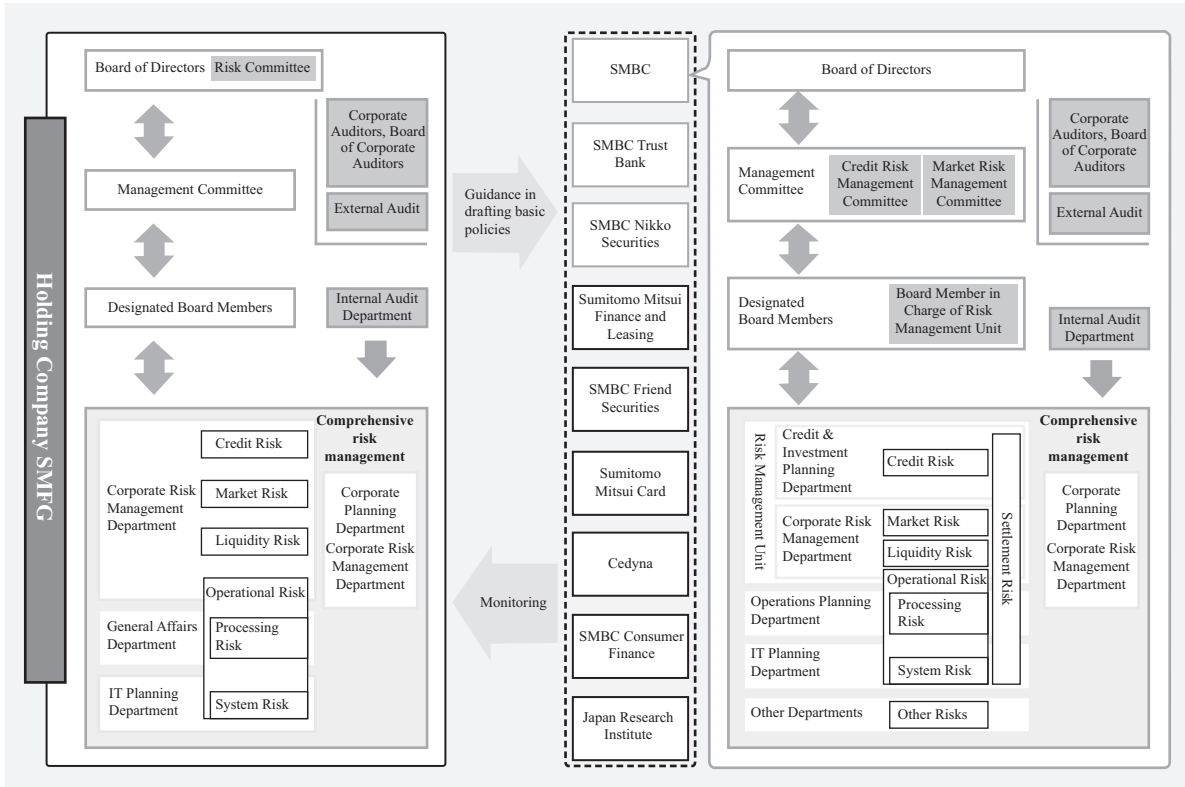
Reflecting the importance of risk management, top management plays an active role in the process. The Group-wide basic policies for risk management are determined by the Management Committee before being authorized by the board of directors.

In line with the Group-wide basic policies for risk management, the functions for managing major risks are consolidated at the Corporate Risk Management Department, and the SMFG Group seeks to refine its risk

management system by means such as across-the-board reviews for each risk category. In addition, the Internal Audit Unit audits risk management to verify whether the system is working properly.

Risk management systems are in place at the individual SMFG Group companies for their particular businesses in accordance with the basic policies. At SMBC, for example, specific departments have been appointed for risks associated with settlement in addition to the overall handling of such categories as credit and market risk. Each risk category is managed in accordance with its particular characteristics.

The diagram below represents the risk management system of the SMFG Group and SMBC.



**Risk Capital Management**

In managing the risk categories shared by the SMFG Group as a whole, the SMFG Group applies a uniform standard, risk capital based on VaR. This measurement is applied to credit, market, and operational risk, taking account of each risk’s particular characteristics and individual SMFG Group company business characteristics, and used to set upper limits within the scope of the SMFG Group’s resources (capital). Risk capital is also used in optimizing capital allocation on a SMFG Group consolidated basis.

**Credit Risk**

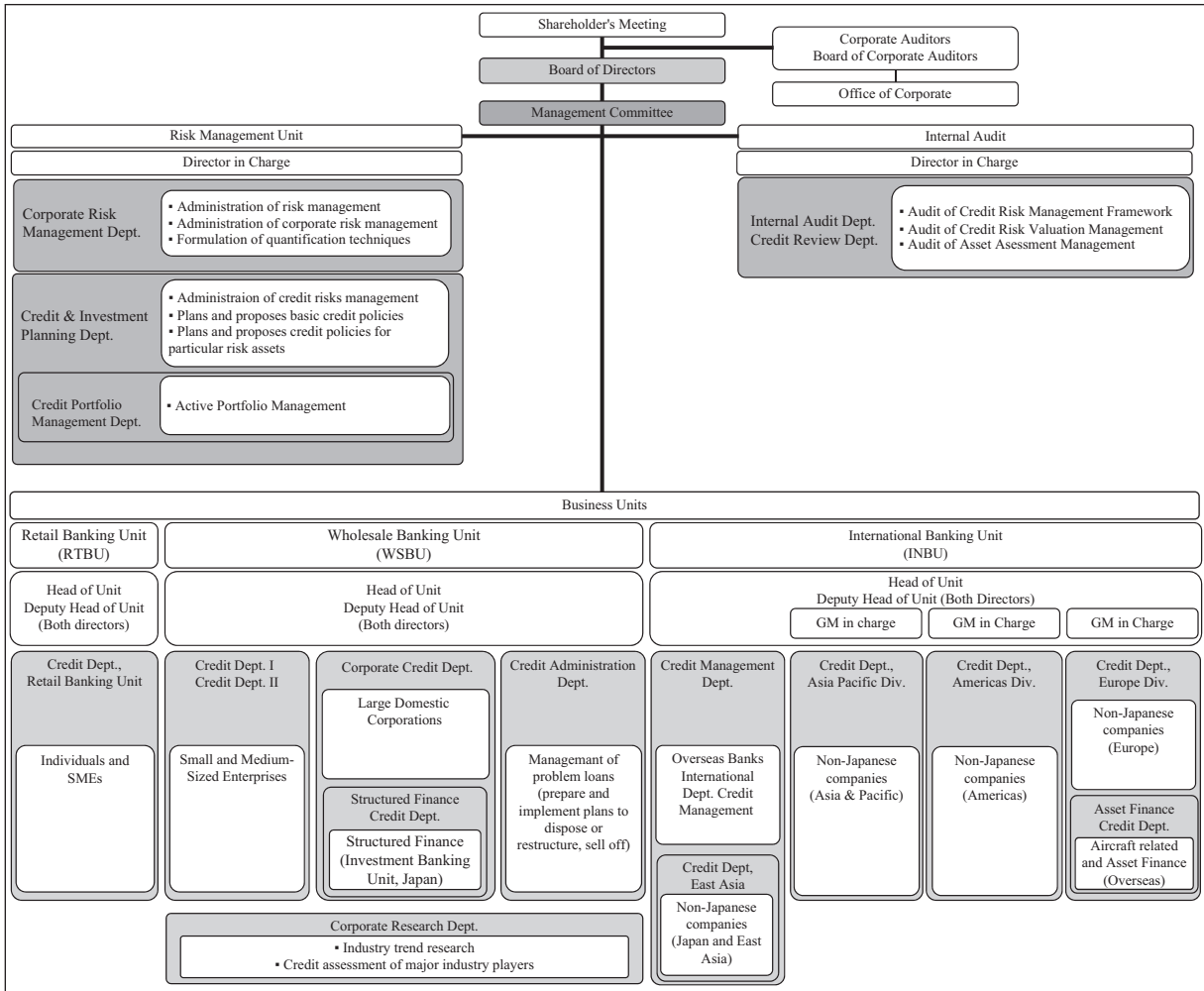
Credit risk is the risk of incurring losses from decline or loss of the value of an asset (including off-balance sheet items) that is caused by a credit event including but not limited to the deterioration of financial condition of a borrower. Overseas credits transactions also entail country risk, which is closely related to credit risk. Country risk is the risk of incurring losses caused by changes in political or economic conditions. Credit exposures arise primarily from lending activities such as loans and advances, acquiring investment securities, derivative transactions, and off-balance sheet transactions such as unused portion of loan commitments.

**Credit risk management system**

Credit risk is the most significant risk to which the SMFG Group is exposed. The purpose of credit risk management is to keep the credit risk exposure to a permissible level relative to capital, to maintain the quality of assets and to ensure returns commensurate with risk.

On the basis of Group-wide basic policies for risk management, the SMFG Group companies follow the fundamental principles established by the SMFG Group to assess and manage credit risk. Each SMFG Group company manages credit risk according to the nature of its business, and assesses and manages the credit risks of individual loans and credit portfolios quantitatively, using consistent standards.

The following chart shows the credit risk management system of SMBC, the SMFG Group’s significant banking subsidiary.



At SMBC, the Credit & Investment Planning Department within the Risk Management Unit is responsible for the comprehensive management of credit risk. This department drafts and administers credit policies, the internal rating system, credit authority guidelines and credit application guidelines, and manages non-performing loans (“NPLs”), including impaired loans, and other aspects of credit portfolio management. The department also cooperates with the Corporate Risk Management Department in quantifying credit risk (risk capital and risk-weighted assets) and controls SMBC’s entire credit risk. Further, the Credit Portfolio Management Department

within the Credit & Investment Planning Department strives to stabilize the credit portfolio and manage the risk through credit derivatives, loan asset sales and other instruments.

The credit departments within each business unit conduct credit risk management for loans handled by their units and manage their units' portfolios. The credit limits they use are based on the baseline amounts that the Credit & Investment Planning Department establishes for each grading category, with particular attention paid to evaluating and managing customers or loans perceived to have particularly high credit risk. The Corporate Research Department engages in research on industries and analyzes the business and financial conditions of borrower enterprises to detect early signs of problems or growth potential.

The Credit Administration Department is responsible for handling NPLs of borrowers classified as potentially bankrupt or lower, and formulates plans for workouts, including write-offs, and corporate rehabilitation. The department closely liaises with SMBC Servicer Co., Ltd., an SMFG Group company, which engages in related services to efficiently reduce the amount of NPLs, including through the sale of loans.

The Internal Audit Unit, operating independently of the business units, audits asset quality, accuracy of grading and state of credit risk management, and reports the results directly to the board of directors and the Management Committee.

SMBC has established the Credit Risk Committee to undertake control of credit risk and to ensure the overall soundness of the loan operations.

#### ***Credit risk management methods***

To effectively manage the risk involved in individual loans as well as the credit portfolio as a whole, SMBC first acknowledges that every loan entails credit risk, assesses the credit risk posed by each borrower and loan using an internal rating system, and quantifies that risk for control purposes.

#### ***Credit risk evaluation***

The Credit & Investment Planning Department manages an internal rating system for each asset control category set according to portfolio characteristics. For example, credits to commercial and industrial ("C&I") companies, individuals for business purposes (domestic only), sovereigns, public sector entities, and financial institutions are assigned an "obligor grade," which indicates the borrower's creditworthiness, and/or "facility grade," which indicates the collectability of assets taking into account the transaction conditions such as guarantee/collateral, and tenor. The business units determine an obligor grade by first assigning a financial grade using a financial strength grading model and data obtained from the obligor's financial statements, including net worth and cash flows. The financial grade is then adjusted taking into account the actual state of the obligor's financial position and qualitative factors to derive the obligor grade. The qualitative factors mainly include the expected future cash flows taking into account factors such as historical loss information, the appropriateness of the borrower's business plan or operational improvement plan, the status of progress of its plan, and the overall support from financial institutions. In the event that the borrower is domiciled overseas, internal ratings for credit are made after taking into consideration the country rank, which represents an assessment of the credit quality of each country based on its political and economic situation, as well as its current account balance and external debt. Obligor grades and facility grades are reviewed once a year and as otherwise necessary, such as when there are changes in the credit situation. The SMFG Group's subsidiaries carry out credit risk evaluations in line with SMBC.

The table below shows the corporate obligor grading system of SMBC.

Obligor Grade		Definition	Borrower Category
Domestic (C&I), etc.	Overseas (C&I), etc.		
J1	G1	Very high certainty of debt repayment	Normal Borrowers
J2	G2	High certainty of debt repayment	
J3	G3	Satisfactory certainty of debt repayment	
J4	G4	Debt repayment is likely, but this could change in cases of significant changes in economic trends or business environment	
J5	G5	No problem with debt repayment over the short term, but not satisfactory over the mid to long term, and the situation could change in cases of significant changes in economic trends or business environment	
J6	G6	Currently no problem with debt repayment, but there are unstable business and financial factors that could lead to debt repayment problems	
J7	G7	Close monitoring is required due to problems in meeting loan terms and conditions, sluggish/unstable business, or financial problems	Borrowers Requiring Caution
J7R	G7R	Obligors with loans that are more than three months past due or with restructured loans within the “Borrowers Requiring Caution” category	Substandard Borrowers
J8	G8	Currently not bankrupt, but experiencing business difficulties, making insufficient progress in restructuring and highly likely to go bankrupt	Potentially Bankrupt Borrowers
J9	G9	Though not yet legally or formally bankrupt, has serious business difficulties and rehabilitation is unlikely; thus, effectively bankrupt	Effectively Bankrupt Borrowers
J10	G10	Legally or formally bankrupt	Bankrupt Borrowers

There are also grading systems for loans to individuals such as housing loans and structured finance including project finance, where the repayment source is limited to the cash flows generated by a particular business or asset. For example, the obligor grade of housing loans is determined taking into account various relevant factors such as proportion of the repayment to revenue, proportion of down payment to the value and past due information.

The Credit & Investment Planning Department centrally manages the internal rating systems, and designs, operates, supervises and validates the grading models. It validates the grading models (including statistical validation) of main assets following the procedure manual once a year to ensure their effectiveness and suitability.

*Quantification of credit risk*

Credit risk quantification refers to the process of estimating the degree of credit risk of a portfolio or individual loan taking into account not just the obligor’s probability of default (“PD”), but also the concentration of risk in a specific customer or industry, and the loss impact of fluctuations in the value of collateral, such as real estate and securities.

Specifically, the PD by grade, loss given default (“LGD”), credit quality correlation among obligors, and other parameter values are estimated using the historical data of obligors and facilities stored in a database to calculate the credit risk. Then, based on these parameters, SMBC runs a simulation of simultaneous default using the Monte Carlo Simulation to calculate SMBC’s maximum loss exposure to the estimated amount of the maximum losses that may be incurred. Based on these quantitative results, SMBC allocates risk capital.

Risk quantification is also executed for purposes such as to determine the portfolio’s risk concentration or to simulate economic movements (stress tests), and the results are used for making optimal decisions across the whole range of business operations, including formulating business plans and providing a standard against which individual credit applications are assessed.

### ***Credit assessment***

At SMBC, the credit assessment of corporate loans involves a variety of financial analyses, including cash flows, to predict an enterprise’s capability of loan repayment and its growth prospects. These quantitative measures, when combined with qualitative analyses of industrial trends, the enterprise’s research and development capabilities, the competitiveness of its products or services, and its management caliber, result in a comprehensive credit assessment. The loan application is analyzed in terms of the intended utilization of the funds and the repayment schedule. In the assessment of housing loans for individuals, SMBC employs a credit assessment model based on credit data amassed and analyzed by SMBC over many years, taking into account various relevant factors including proportion of the repayment to revenue, proportion of down payment to the value and past due information.

### ***Credit monitoring***

At SMBC, in addition to analyzing loans at the application stage, the Credit Monitoring System is utilized to reassess obligor grades, and review credit policies for each obligor so that problems can be detected at an early stage, and quick and effective action can be taken. The system includes annual monitoring that is carried out each time the financial results of the obligor enterprise are obtained, as well as ad-hoc monitoring that is performed each time credit conditions change.

### ***Credit portfolio management***

#### ***Risk-taking within the scope of capital***

To keep the credit risk exposure to a permissible level relative to capital, SMBC’s Corporate Risk Management Department sets a credit risk capital limit for internal control purposes. Under this limit, sub-limits are set for each business unit. The Corporate Risk Management Department conducts monthly monitoring to make sure that these limits are being followed.

#### ***Controlling concentration risk***

Once the credit concentration risk is realized, the equity capital of SMBC may be materially impaired. SMBC’s Credit & Investment Planning Department therefore takes measures to manage concentration risks, such as introducing large exposure limits and conducting intensive loan reviews for obligors with large exposures, with an increased focus on industrial sectors with an excessive concentration of credit risk. Further, to manage country risk, the Credit Management Department of the International Banking Unit has credit limit guidelines based on each country’s creditworthiness.

#### ***Toward active portfolio management***

SMBC’s Credit Portfolio Management Department makes use of credit derivatives, loan asset sales, and other instruments to proactively and flexibly manage its portfolio to stabilize credit risk.



**Maximum exposure to credit risk before collateral held or other credit enhancements**

The following table shows the maximum exposure to credit risk before taking into account any collateral held or other credit enhancements at March 31, 2017 and 2016.

	At March 31,	
	2017	2016
(In millions)		
<b>Credit risk exposures relating to assets on the consolidated statement of financial position:</b>		
Deposits with banks	¥ 46,207,027	¥ 42,179,465
Call loans and bills bought	1,872,209	1,291,366
Reverse repurchase agreements and cash collateral on securities borrowed	8,924,385	8,236,516
Trading assets	3,339,928	3,174,309
Derivative financial instruments	4,063,982	5,290,825
Financial assets at fair value through profit or loss	1,582,957	1,582,571
Investment securities:		
Held-to-maturity investments	1,173,419	2,267,542
Available-for-sale financial assets	12,123,770	12,349,910
Loans and advances	95,273,845	88,862,371
Other financial assets	3,424,591	2,764,315
<b>Credit risk exposures relating to off-balance sheet items<sup>(1)</sup>:</b>		
Loan commitments	62,357,210	58,026,597
Financial guarantees and other credit-related contingent liabilities	7,924,711	7,349,903
<b>Total</b>	<b>¥248,268,034</b>	<b>¥233,375,690</b>

(1) The off-balance sheet items represent the nominal amounts of undrawn loan commitments, financial guarantees and other credit-related contingent liabilities.

Based on the table above, excluding loan commitments (refer to Note 41 “Contingency and Capital Commitments”), the majority of the total exposure to credit risk is derived from “Loans and advances” and “Available-for-sale financial assets.”

**Collateral and other credit enhancements**

The SMFG Group considers the acquisition of collateral and guarantees as a secondary repayment source to further enhance loan recovery and minimize credit risk. Based on the assessment of a borrower’s real financial condition and potential future cash flows, the SMFG Group shall analyze the borrower’s repayment ability and require sufficient collateral in the form of an asset or third-party obligation. This serves to mitigate the inherent credit risk in the exposure, by either improving recoveries in the event of a default or transferring the borrower’s obligation to guarantors. Collateral received is mainly segregated into (1) financial collateral such as cash, deposits and securities, (2) real estate collateral such as land and buildings, and (3) guarantees received from sovereigns, municipal corporations, credit guarantee corporations and other public entities, financial institutions, and other companies.

The SMFG Group’s credit risk management is mainly based on an analysis of the repayment ability from the cash flows of the borrower’s business performance, and the collateral and other credit enhancements are considered as secondary repayment sources in the SMFG Group’s business practice. At the time of the primary lending decision, the SMFG Group evaluates the collateral on an individual borrower basis to consider its financial effect for mitigating credit risk. The re-evaluation of the collateral and other credit enhancements will be performed regularly, depending on the borrower’s creditworthiness. In case there is a significant change in the

borrower's repayment ability due to a deterioration in its creditworthiness and/or its cash flows, the SMFG Group may utilize the collateral and other credit enhancements as a source of repayment.

The following table shows the financial effect of collateral and other credit enhancements on loans and advances for borrowers requiring caution and impaired loans and advances at March 31, 2017 and 2016. The maximum collateral amounts included in the disclosure are limited to the carrying value of loans and advances where the credit exposure is over-collateralized.

	<u>At March 31,</u>	
	<u>2017</u>	<u>2016</u>
	(In millions)	
Loans and advances for borrowers requiring caution and impaired loans and advances . . . . .	¥ 3,212,447	¥ 3,436,118
Financial effect of collateral and other credit enhancements . . . . .	1,422,996	1,539,900

***Concentration of risks of loans and advances with credit risk exposure***

An analysis of concentrations of credit risk from loans and advances by geographical sector and industry sector at March 31, 2017 and 2016 is shown below. The concentration by geographical sector is measured based on the domicile of the borrower.

*Geographical sector*

	<u>At March 31,</u>	
	<u>2017</u>	<u>2016</u>
	(In millions)	
Domestic . . . . .	¥ 68,020,094	¥ 63,203,919
Foreign:		
Americas . . . . .	11,417,162	10,722,157
Europe . . . . .	5,031,197	4,982,442
Asia . . . . .	8,412,109	7,603,424
Others . . . . .	3,310,164	3,286,103
Total foreign . . . . .	<u>28,170,632</u>	<u>26,594,126</u>
Gross loans and advances . . . . .	96,190,726	89,798,045
Adjust: Unearned income, unamortized premiums—net and deferred loan fees—net . . . . .	(236,425)	(212,957)
Less: Allowance for loan losses . . . . .	<u>(680,456)</u>	<u>(722,717)</u>
Net loans and advances . . . . .	<u>¥ 95,273,845</u>	<u>¥ 88,862,371</u>

Industry sector

	At March 31,	
	2017	2016
	(In millions)	
<b>Domestic:</b>		
Manufacturing . . . . .	¥ 9,578,147	¥ 8,298,576
Agriculture, forestry, fisheries and mining . . . . .	174,021	184,314
Construction . . . . .	1,151,989	1,169,900
Transportation, communications and public enterprises . . . . .	5,365,225	5,258,899
Wholesale and retail . . . . .	5,721,005	5,548,103
Finance and insurance . . . . .	2,844,546	2,684,865
Real estate and goods rental and leasing . . . . .	10,101,846	9,587,757
Services . . . . .	4,885,247	4,960,352
Municipalities . . . . .	1,216,211	1,374,306
Lease financing . . . . .	2,706,641	2,212,048
Consumer <sup>(1)</sup> . . . . .	19,096,755	18,935,521
Others . . . . .	5,178,461	2,989,278
Total domestic . . . . .	<u>68,020,094</u>	<u>63,203,919</u>
<b>Foreign:</b>		
Public sector . . . . .	299,746	236,290
Financial institutions . . . . .	4,588,001	4,067,764
Commerce and industry . . . . .	21,041,905	20,451,545
Lease financing . . . . .	404,658	357,072
Others . . . . .	1,836,322	1,481,455
Total foreign . . . . .	<u>28,170,632</u>	<u>26,594,126</u>
Gross loans and advances . . . . .	96,190,726	89,798,045
Adjust: Unearned income, unamortized premiums—net and deferred loan fees—net . . . . .	(236,425)	(212,957)
Less: Allowance for loan losses . . . . .	<u>(680,456)</u>	<u>(722,717)</u>
Net loans and advances . . . . .	<u>¥95,273,845</u>	<u>¥88,862,371</u>

(1) The balance in Consumer mainly consists of housing loans. The housing loan balances amounted to ¥13,766,771 million and ¥13,984,755 million at March 31, 2017 and 2016, respectively.

The following tables show a disaggregation of the structured finance loans and advances balances, where the repayment source is limited to the cash flows generated by a particular business or asset, and the balances of secured or unsecured consumer loans at March 31, 2017 and 2016. These loans and advances are included in the preceding tables.

Structured finance:

	At March 31,	
	2017	2016
	(In millions)	
Real estate finance . . . . .	¥ 2,222,530	¥ 1,971,892
Project finance . . . . .	3,859,424	3,326,624
Other structured finance . . . . .	370,160	360,583
Total structured finance . . . . .	<u>¥ 6,452,114</u>	<u>¥ 5,659,099</u>

Consumer:

	At March 31,	
	2017	2016
	(In millions)	
Secured loans <sup>(1)</sup> . . . . .	¥14,994,042	¥15,100,882
Unsecured loans . . . . .	4,102,713	3,834,639
Total consumer . . . . .	<u>¥19,096,755</u>	<u>¥18,935,521</u>

(1) The secured loans and advances mainly represent housing loans. The housing loan balances amounted to ¥13,766,771 million and ¥13,984,755 million at March 31, 2017 and 2016, respectively.

**Loans and advances by credit quality category**

Loans and advances are summarized as follows:

	At March 31,	
	2017	2016
	(In millions)	
Neither past due nor impaired . . . . .	¥94,825,134	¥88,300,045
Past due but not impaired . . . . .	136,904	145,413
Impaired <sup>(1)</sup> . . . . .	<u>1,228,688</u>	<u>1,352,587</u>
Gross loans and advances . . . . .	96,190,726	89,798,045
Adjust: Unearned income, unamortized premiums—net and deferred loan fees—net . . . . .	(236,425)	(212,957)
Less: Allowance for loan losses . . . . .	<u>(680,456)</u>	<u>(722,717)</u>
Net loans and advances . . . . .	<u>¥95,273,845</u>	<u>¥88,862,371</u>

(1) Loans and advances to borrowers who are classified in the borrower categories of substandard borrowers, potentially bankrupt borrowers, effectively bankrupt borrowers, and bankrupt borrowers described in the obligor grading system represent impaired loans and advances.

*Loans and advances neither past due nor impaired*

The following tables show the credit quality of the portfolio of loans and advances that were neither past due nor impaired, by geography and by industry based on the corporate obligor grading system of SMBC at March 31, 2017 and 2016. Since the internal rating system of SMBC's consumer portfolio differs from the corporate obligor grading system, the balances of loans and advances to consumers are included in the grade category of "Other." Additionally, as the SMFG Group's subsidiaries are adopting various internal rating systems which differ from SMBC, the grade category of "Other" also includes some balances of loans and advances held by those subsidiaries.

	At March 31, 2017						
	Normal				Requiring Caution		
	J 1-3	J 4-6	Japanese government and local municipal corporations	Other	J 7	Other	Total
	(In millions)						
<b>Domestic:</b>							
Manufacturing . . . . .	¥ 5,220,451	¥ 2,294,471	¥ —	¥ 1,528,465	¥ 371,365	¥ 34,956	¥ 9,449,708
Agriculture, forestry, fisheries and mining . . . . .	111,241	45,573	500	5,955	7,905	588	171,762
Construction . . . . .	271,321	479,408	—	323,281	33,050	16,279	1,123,339
Transportation, communications and public enterprises . . . . .	3,000,896	1,805,631	129,708	317,943	58,684	18,869	5,331,731
Wholesale and retail . . . . .	2,182,359	2,483,635	—	733,264	155,778	36,234	5,591,270
Finance and insurance . . . . .	1,897,381	346,939	3,243	575,688	1,344	15,702	2,840,297
Real estate and goods rental and leasing . . . . .	5,188,687	3,028,913	35,078	1,496,839	99,237	104,524	9,953,278
Services . . . . .	1,552,427	2,350,110	34,826	690,201	97,651	45,520	4,770,735
Municipalities . . . . .	—	—	1,042,346	157,144	—	16,721	1,216,211
Lease financing . . . . .	—	—	—	2,610,519	—	87,533	2,698,052
Consumer <sup>(1)</sup> . . . . .	—	146	—	18,470,768	3,012	183,247	18,657,173
Others . . . . .	53,091	2,090,278	2,298,829	590,353	94,415	6,101	5,133,067
Total domestic . . . . .	19,477,854	14,925,104	3,544,530	27,500,420	922,441	566,274	66,936,623
	<b>G 1-3</b>	<b>G 4-6</b>	<b>—</b>	<b>Other</b>	<b>G 7</b>	<b>Other</b>	<b>Total</b>
<b>Foreign:</b>							
Public sector . . . . .	220,796	72,198	—	6,516	—	211	299,721
Financial institutions . . . . .	2,586,295	431,372	—	1,538,913	—	24,481	4,581,061
Commerce and industry . . . . .	14,068,055	2,546,812	—	3,778,524	306,315	106,831	20,806,537
Lease financing . . . . .	24,592	—	—	355,141	—	12,763	392,496
Others . . . . .	1,219,303	181,808	—	386,418	10,914	10,253	1,808,696
Total foreign . . . . .	18,119,041	3,232,190	—	6,065,512	317,229	154,539	27,888,511
Total . . . . .	¥37,596,895	¥18,157,294	¥3,544,530	¥33,565,932	¥1,239,670	¥ 720,813	¥94,825,134

(1) The balance in the grade category of "Other" in Consumer includes housing loans, which amounted to ¥13,519,680 million and ¥70,963 million for the borrower category of Normal and Requiring Caution, respectively.

At March 31, 2016

	Normal				Requiring Caution		
	J 1-3	J 4-6	Japanese government and local municipal corporations	Other	J 7	Other	Total
	(In millions)						
<b>Domestic:</b>							
Manufacturing . . . . .	¥ 4,079,745	¥ 2,312,983	¥ —	¥ 1,482,203	¥ 249,514	¥ 30,678	¥ 8,155,123
Agriculture, forestry, fisheries and mining . . . .	120,102	40,283	1,836	4,773	13,935	488	181,417
Construction . . . . .	256,807	486,372	—	340,084	40,480	15,971	1,139,714
Transportation, communications and public enterprises . . . . .	2,806,799	1,854,794	130,276	331,062	69,273	18,964	5,211,168
Wholesale and retail . . . . .	2,100,074	2,339,099	—	762,215	148,212	33,427	5,383,027
Finance and insurance . . . .	1,771,768	344,988	3,777	541,677	1,192	12,959	2,676,361
Real estate and goods rental and leasing . . . . .	4,835,253	2,931,969	60,172	1,379,394	123,198	97,519	9,427,505
Services . . . . .	1,205,281	2,389,434	368,595	675,641	124,808	42,776	4,806,535
Municipalities . . . . .	—	—	1,196,218	162,416	—	15,672	1,374,306
Lease financing . . . . .	—	—	—	2,175,270	—	20,149	2,195,419
Consumer <sup>(1)</sup> . . . . .	—	—	—	18,262,468	3,706	205,149	18,471,323
Others . . . . .	75,001	2,054,174	240,406	430,588	134,481	2,130	2,936,780
Total domestic . . . . .	<u>17,250,830</u>	<u>14,754,096</u>	<u>2,001,280</u>	<u>26,547,791</u>	<u>908,799</u>	<u>495,882</u>	<u>61,958,678</u>
	<b>G 1-3</b>	<b>G 4-6</b>	<b>—</b>	<b>Other</b>	<b>G 7</b>	<b>Other</b>	<b>Total</b>
<b>Foreign:</b>							
Public sector . . . . .	186,590	43,537	—	5,786	—	346	236,259
Financial institutions . . . . .	2,336,134	265,339	—	1,430,931	—	26,149	4,058,553
Commerce and industry . . .	13,183,703	2,299,987	—	4,132,695	452,172	160,373	20,228,930
Lease financing . . . . .	—	—	—	333,664	—	12,138	345,802
Others . . . . .	961,363	176,170	—	317,251	5,496	11,543	1,471,823
Total foreign . . . . .	<u>16,667,790</u>	<u>2,785,033</u>	<u>—</u>	<u>6,220,327</u>	<u>457,668</u>	<u>210,549</u>	<u>26,341,367</u>
Total . . . . .	<u>¥33,918,620</u>	<u>¥17,539,129</u>	<u>¥2,001,280</u>	<u>¥32,768,118</u>	<u>¥1,366,467</u>	<u>¥ 706,431</u>	<u>¥88,300,045</u>

(1) The balance in the grade category of “Other” in Consumer includes housing loans, which amounted to ¥13,679,846 million and ¥87,006 million for the borrower category of Normal and Requiring Caution, respectively.

*Loans and advances past due but not impaired*

The SMFG Group assesses the credit quality of loans and advances taking into account past due information on a borrower basis, and does not comprehensively collate the data related to the age analysis of loans and advances that were past due but not impaired on an individual basis. The aggregate balances of loans and advances of borrowers with one or more facilities, where any of the facilities are past due for less than three months but not impaired as at March 31, 2017 and 2016 were ¥167,159 million and ¥173,749 million, respectively. Those aggregate balances therefore include individual loans and advances which are not past due. Thus, in the tables below, the SMFG Group provides the amount of loans and advances where the final payment at contractual maturity is past due, by geography and by industry, at March 31, 2017 and 2016. For reference, since all the loans and advances that are past due over three months are treated as impaired, those loans and advances are not included in the tables below.

	At March 31, 2017			
	Past due up to 1 month	Past due 1-2 months	Past due 2-3 months	Total
	(In millions)			
<b>Domestic:</b>				
Manufacturing .....	¥ 701	¥ 153	¥ 4	¥ 858
Agriculture, forestry, fisheries and mining .....	8	—	—	8
Construction .....	423	118	27	568
Transportation, communications and public enterprises ...	612	2	—	614
Wholesale and retail .....	5,436	1,345	235	7,016
Finance and insurance .....	59	55	—	114
Real estate and goods rental and leasing .....	832	164	56	1,052
Services .....	1,421	306	212	1,939
Lease financing .....	523	51	46	620
Consumer .....	41,103	12,508	22,666	76,277
Others .....	3,617	—	531	4,148
Total domestic .....	54,735	14,702	23,777	93,214
<b>Foreign:</b>				
Financial institutions .....	2,313	234	2,022	4,569
Commerce and industry .....	17,326	8,418	9,641	35,385
Others .....	1,822	1,293	621	3,736
Total foreign .....	21,461	9,945	12,284	43,690
Total .....	¥ 76,196	¥ 24,647	¥ 36,061	¥ 136,904

At March 31, 2016

	Past due up to 1 month	Past due 1-2 months	Past due 2-3 months	Total
	(In millions)			
<b>Domestic:</b>				
Manufacturing .....	¥ 889	¥ 70	¥ 20	¥ 979
Agriculture, forestry, fisheries and mining .....	47	—	—	47
Construction .....	598	276	40	914
Transportation, communications and public enterprises ...	428	7	2	437
Wholesale and retail .....	3,419	399	55	3,873
Finance and insurance .....	161	35	—	196
Real estate and goods rental and leasing .....	472	288	907	1,667
Services .....	3,557	323	136	4,016
Lease financing .....	321	10	47	378
Consumer .....	43,644	14,159	20,505	78,308
Others .....	2	12	—	14
Total domestic .....	53,538	15,579	21,712	90,829
<b>Foreign:</b>				
Financial institutions .....	600	2,176	3,915	6,691
Commerce and industry .....	7,925	2,031	33,987	43,943
Others .....	2,249	1,242	459	3,950
Total foreign .....	10,774	5,449	38,361	54,584
Total .....	¥ 64,312	¥ 21,028	¥ 60,073	¥ 145,413



*Impaired loans and advances*

The following table shows the impaired loans and advances, by geography and by industry, at March 31, 2017 and 2016.

	At March 31,	
	2017	2016
(In millions)		
<b>Domestic:</b>		
Manufacturing	¥ 127,581	¥ 142,474
Agriculture, forestry, fisheries and mining	2,251	2,850
Construction	28,082	29,272
Transportation, communications and public enterprises	32,880	47,294
Wholesale and retail	122,719	161,203
Finance and insurance	4,135	8,308
Real estate and goods rental and leasing	147,516	158,585
Services	112,573	149,801
Lease financing	7,969	16,251
Consumer	363,305	385,890
Others	41,246	52,484
Total domestic	<u>990,257</u>	<u>1,154,412</u>
<b>Foreign:</b>		
Public sector	25	31
Financial institutions	2,371	2,520
Commerce and industry	199,983	178,672
Lease financing	12,162	11,270
Others	23,890	5,682
Total foreign	<u>238,431</u>	<u>198,175</u>
Total impaired loans and advances before allowance for loan losses	<u>1,228,688</u>	<u>1,352,587</u>
Less: Allowance for loan losses for impaired loans and advances	<u>(532,451)</u>	<u>(613,510)</u>
Net impaired loans and advances	<u>¥ 696,237</u>	<u>¥ 739,077</u>

*Renegotiated loans and advances*

The following table shows loans and advances at March 31, 2017 and 2016 that would otherwise be past due or impaired, but whose terms have been renegotiated without providing any financial concessions. These loans and advances are mainly classified as requiring caution in the table of “Loans and advances neither past due nor impaired” in the section “Loans and advances by credit quality category.”

The SMFG Group continually assesses the creditworthiness of a borrower for whom terms of the loans and advances have been renegotiated, taking into account the actual state of the borrower’s financial position and qualitative factors. Further details are described in “Credit risk evaluation” in the section “Credit risk management methods.” Loans and advances whose terms have been renegotiated and financial concessions have been provided are reported as impaired and included in the table of “Impaired loans and advances” in the section “Loans and advances by credit quality category.”

	At March 31,	
	2017	2016
(In millions)		
Renegotiated loans and advances	¥ 463,092	¥ 516,434

### *Trading assets and investment securities*

The following table shows an analysis of trading assets, financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets based on the external rating system at March 31, 2017 and 2016, excluding equity instruments. Collateral is generally not obtained directly from the issuers.

At March 31, 2017					
	Trading assets	Financial assets at fair value through profit or loss	Held-to-maturity investments	Available-for-sale financial assets	Total
(In millions)					
AAA .....	¥ 242,240	¥ —	¥ —	¥ 4,666,664	¥ 4,908,904
AA- to AA+ .....	2,803,467	1,570,904	1,173,419	6,822,953	12,370,743
A- to A+ .....	236,348	—	—	132,943	369,291
Lower than A- .....	39,380	—	—	482,097	521,477
Unrated .....	18,493	12,053	—	19,113	49,659
Total .....	<u>¥ 3,339,928</u>	<u>¥ 1,582,957</u>	<u>¥ 1,173,419</u>	<u>¥ 12,123,770</u>	<u>¥ 18,220,074</u>

Impaired available-for-sale financial assets with a carrying amount of ¥526 million at March 31, 2017 are included in the table above.

At March 31, 2016					
	Trading assets	Financial assets at fair value through profit or loss	Held-to-maturity investments	Available-for-sale financial assets	Total
(In millions)					
AAA .....	¥ 380,538	¥ —	¥ —	¥ 3,849,722	¥ 4,230,260
AA- to AA+ .....	2,543,308	1,570,904	2,267,542	7,869,813	14,251,567
A- to A+ .....	188,014	—	—	122,019	310,033
Lower than A- .....	58,580	—	—	481,594	540,174
Unrated .....	3,869	11,667	—	26,762	42,298
Total .....	<u>¥ 3,174,309</u>	<u>¥ 1,582,571</u>	<u>¥ 2,267,542</u>	<u>¥ 12,349,910</u>	<u>¥ 19,374,332</u>

Impaired available-for-sale financial assets with a carrying amount of ¥1,276 million at March 31, 2016 are included in the table above.

### *Credit risk from derivative financial instruments*

The SMFG Group maintains control limits on derivative positions, by both amount and term. At any one time, the amount subject to credit risk is limited to the fair value of derivative financial instruments that are favorable to the SMFG Group (i.e., assets where their fair value is positive).

The SMFG Group's credit risk from derivatives is mitigated where possible through netting agreements whereby derivative assets and liabilities with the same counterparty can be offset. Netting agreements, such as the ISDA master agreement, allow the netting of obligations arising under all of the derivative transactions that the agreement covers upon the counterparty's default, regardless of maturity and currency, resulting in a single net claim against the counterparty. The SMFG Group's credit risk is also mitigated by collateral arrangements through the credit support annex, resulting in collateral delivered or received regularly based on the replacement costs of derivatives.

## **Market Risk and Liquidity Risk**

Market risk is the possibility that fluctuations in interest rates, foreign exchange rates, stock prices or other market prices will change the market value of financial products, leading to a loss. The purpose of market risk management is to keep the market risk exposure to a permissible level relative to capital.

Liquidity risk is defined as the uncertainty around the ability to meet debt obligations without incurring unacceptably large losses. An example of such risk is the possible inability to meet current and future cash flow/collateral needs, both expected and unexpected. In such cases, the SMFG Group may be required to raise funds at less than favorable rates or be unable to raise sufficient funds for settlement. The purpose of liquidity risk management is to ensure that the SMFG Group is in a position to address its liquidity obligations through monitoring the liquidity gap between assets and liabilities, and maintaining highly liquid supplementary funding resources.

On the basis of the Group-wide basic policies for risk management, the SMFG Group has a quantitative management process to control market and liquidity risks on a Group-wide basis by setting allowable risk limits by company. The SMFG Group at least annually reviews and identifies which companies primarily carry the market and liquidity risks within the Group. The SMFG Group sets permissible levels and upper limits of risk for each identified company in consideration of those companies' business plans. The SMFG Group ensures that each identified company establishes a risk management system that is appropriate to the risks it faces, and has built-in transparent risk management processes, clearly separating front office, middle office and back office operations, and establishing a control system of mutual checks and balances.

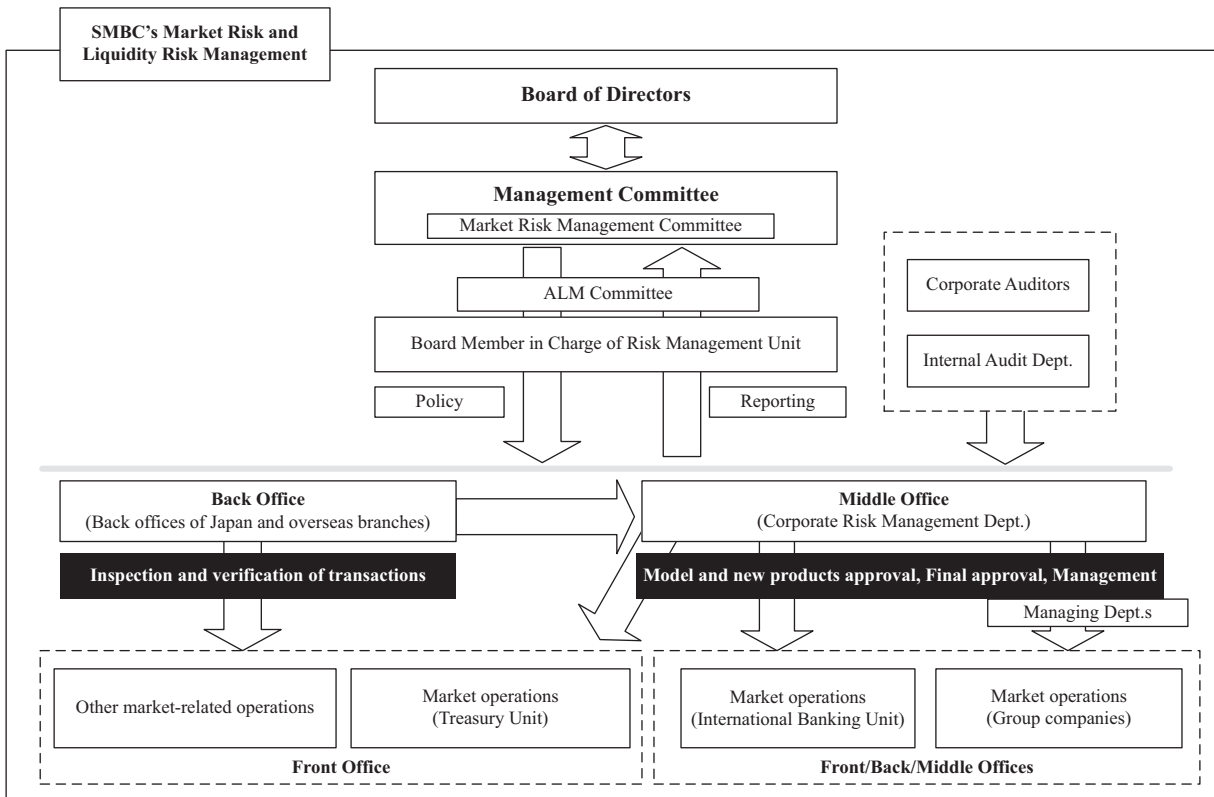
### ***Framework for market and liquidity risk management***

The board of directors authorizes important matters relating to the management of market and liquidity risks, such as the basic policies and risk limits, which are decided by the Management Committee.

Additionally, at SMBC, the Corporate Risk Management Department manages market and liquidity risks in an integrated manner. The Corporate Risk Management Department is the planning department of the Risk Management Unit, which is independent of the business units that directly handle market transactions, and not only monitors the current risk situations but also reports regularly to the Management Committee and the board of directors. Furthermore, SMBC's Asset Liability Management ("ALM") Committee meets on a monthly basis to examine reports on the state of observance of SMBC's limits on market and liquidity risks, and to review and discuss SMBC's ALM operations.

To prevent unforeseen processing errors as well as fraudulent transactions, it is important to establish a system of checks on the business units (front office). At SMBC, both the processing departments (back office) and the administrative departments (middle office) conduct the checks. In addition, the Internal Audit Unit of SMBC periodically performs internal audits to verify that the risk management framework is functioning properly.

The following chart shows the market and liquidity risk management system of SMBC.



**Market risk management methods**

The SMFG Group manages market risk from trading activities and non-trading activities, including strategic equity investment and other transactions within the risk capital limit which is determined taking into account SMFG’s shareholders’ equity and other principal indicators of the financial position. The SMFG Group also establishes an upper limit on VaR and losses within the risk capital limits.

The SMFG Group’s market risk can be divided into various factors: interest rates, foreign exchange rates, equity prices and option risks. The SMFG Group manages each of these risks by employing the VaR method as well as supplemental indicators suitable for managing each risk, such as the basis point value (“BPV”).

VaR is the largest predicted loss that is possible given a fixed confidence interval. For example, the SMFG Group’s VaR indicates the largest loss that is possible for a holding period of one day and a confidence interval of 99.0%. BPV is the amount of change in assessed value as a result of a one-basis-point (0.01%) movement in interest rates.

*Value at risk*

The principal SMFG Group companies’ internal VaR model makes use of historical data to prepare scenarios for market fluctuations and, by conducting simulations of gains and losses on a net position basis, the model estimates the maximum losses that may occur. The VaR calculation method the SMFG Group employs for both trading and non-trading activities is based mainly on the following:

- the historical simulation method;
- a one-sided confidence interval of 99.0%;

- a one-day holding period (a one-year holding period for the strategic equity investment portfolio); and
- an observation period of four years (ten years for the strategic equity investment portfolio).

This method is reviewed periodically and refined, if necessary.

The relationship between the VaR calculated with the model and the actual profit and loss data is back-tested periodically. There were no significant excess losses in the back-testing results including the trading accounts. The back-testing results are reviewed by management, which also monitors the ongoing suitability of the VaR model.

The following tables show the SMFG Group's VaR by risk category and these figures are prepared based on the internal reporting provided to management. The SMFG Group's material market risk exposure categories consist of interest rate risk, foreign exchange risk, equities and commodities risk and others. The section headed "VaR for Trading Activity" shows VaR for instruments entered into for trading purposes and the VaR model for the trading book includes principal consolidated subsidiaries. The section headed "VaR for Non-Trading Activity" shows VaR for instruments entered into for purposes other than trading purposes. "Strategic Equity Investment" in the "VaR for Non-Trading Activity" section is a portfolio that consists principally of publicly traded Japanese equities. This portfolio, like that of other financial institutions in Japan, has historically included shares of the SMFG Group's customers.

(a) VaR for Trading Activity

	<u>Interest rate risk</u>	<u>Foreign exchange risk</u>	<u>Equities and commodities risk</u>	<u>Others</u>	<u>Total<sup>(1)</sup></u>
	(In billions)				
<b>For the fiscal year ended March 31, 2017:</b>					
SMBC Consolidated					
Maximum .....	¥ 19.2	¥ 3.1	¥ 5.3	¥ 2.5	22.6
Minimum .....	1.5	1.0	0.3	1.2	3.9
Daily average .....	8.1	1.7	1.8	1.7	11.8
At March 31, 2017 .....	1.9	1.2	0.4	1.7	3.9
SMFG Consolidated					
Maximum .....	¥ 27.9	¥ 3.9	¥ 5.8	¥ 2.5	34.0
Minimum .....	10.3	1.2	1.1	1.2	13.1
Daily average .....	16.1	1.9	3.1	1.7	21.4
At March 31, 2017 .....	16.7	1.6	4.2	1.7	23.6
	<u>Interest rate risk</u>	<u>Foreign exchange risk</u>	<u>Equities and commodities risk</u>	<u>Others</u>	<u>Total<sup>(1)</sup></u>
	(In billions)				
<b>For the fiscal year ended March 31, 2016:</b>					
SMBC Consolidated					
Maximum .....	¥ 15.8	¥ 3.7	¥ 5.9	¥ 1.7	21.4
Minimum .....	6.3	0.3	0.5	0.8	8.6
Daily average .....	10.0	1.4	1.8	1.2	13.3
At March 31, 2016 .....	7.6	1.1	1.1	1.3	10.4
SMFG Consolidated					
Maximum .....	¥ 16.5	¥ 3.7	¥ 6.2	¥ 1.7	22.5
Minimum .....	7.0	0.3	0.7	0.8	9.6
Daily average .....	10.6	1.4	2.0	1.2	14.2
At March 31, 2016 .....	8.1	1.1	1.2	1.3	11.0

(1) Total for "Maximum," "Minimum," and "Daily average" represent the maximum, minimum and daily average of the total of the trading book. For certain subsidiaries, the SMFG Group employs the standardized method and/or the historical simulation method for the VaR calculation method.

(b) VaR for Non-Trading Activity

(i) Banking

	<u>Interest rate risk</u>	<u>Foreign exchange risk</u>	<u>Equities and commodities risk</u>	<u>Others</u>	<u>Total<sup>(1)</sup></u>
	(In billions)				
<b>For the fiscal year ended March 31, 2017:</b>					
SMBC Consolidated					
Maximum .....	¥ 34.2	¥ 0.0	¥ 38.9	¥ 0.0	¥ 49.9
Minimum .....	23.2	0.0	24.7	0.0	37.8
Daily average .....	27.0	0.0	32.1	0.0	43.0
At March 31, 2017 .....	27.4	0.0	34.2	0.0	44.1
SMFG Consolidated					
Maximum .....	¥ 37.3	¥ 0.0	¥ 38.9	¥ 0.0	¥ 53.2
Minimum .....	26.4	0.0	24.8	0.0	40.2
Daily average .....	30.0	0.0	32.2	0.0	46.1
At March 31, 2017 .....	30.6	0.0	34.3	0.0	47.4

	<u>Interest rate risk</u>	<u>Foreign exchange risk</u>	<u>Equities and commodities risk</u>	<u>Others</u>	<u>Total<sup>(1)</sup></u>
	(In billions)				
<b>For the fiscal year ended March 31, 2016:</b>					
SMBC Consolidated					
Maximum .....	¥ 26.2	¥ 0.0	¥ 34.5	¥ 0.0	¥ 48.0
Minimum .....	13.8	0.0	17.4	0.0	23.1
Daily average .....	20.0	0.0	28.7	0.0	37.8
At March 31, 2016 .....	18.3	0.0	27.4	0.0	33.6
SMFG Consolidated					
Maximum .....	¥ 26.9	¥ 0.0	¥ 34.6	¥ 0.0	¥ 48.9
Minimum .....	14.1	0.0	17.5	0.0	23.5
Daily average .....	20.8	0.0	28.7	0.0	38.7
At March 31, 2016 .....	18.7	0.0	27.5	0.0	34.0

(1) Total for "Maximum," "Minimum," and "Daily average" represent the maximum, minimum and daily average of the total of the banking book.

(ii) Strategic Equity Investment

	<u>Equities risk</u> (In billions)
<b>For the fiscal year ended March 31, 2017:</b>	
SMBC Consolidated	
Maximum .....	¥ 1,421.0
Minimum .....	1,146.2
Daily average .....	1,303.7
At March 31, 2017 .....	1,361.8
SMFG Consolidated	
Maximum .....	¥ 1,603.9
Minimum .....	1,272.8
Daily average .....	1,460.5
At March 31, 2017 .....	1,544.5
	<u>Equities risk</u> (In billions)
<b>For the fiscal year ended March 31, 2016:</b>	
SMBC Consolidated	
Maximum .....	¥ 1,529.5
Minimum .....	1,132.5
Daily average .....	1,397.7
At March 31, 2016 .....	1,247.0
SMFG Consolidated	
Maximum .....	¥ 1,677.1
Minimum .....	1,259.2
Daily average .....	1,542.1
At March 31, 2016 .....	1,387.6

*Stress tests*

The market occasionally undergoes extreme fluctuations that exceed projections. Therefore, to manage market risk, it is important to run simulations of situations that may occur only once in many years, or so-called stress tests. To prepare for unexpected market swings, SMBC performs stress tests on a monthly basis based on various scenarios.

The limitations of the VaR methodology include the following:

- The use of historical data as a proxy for estimating future events may underestimate the probability of extreme market movements. Past market movement is not necessarily a good indicator of future events;
- The use of a holding period assumes that all positions can be liquidated or hedged in that period of time. This assumption does not fully capture the market risk arising during periods of illiquidity, when liquidation or hedging in that period of time may not be possible;
- The use of a confidence level neither takes account of, nor makes any statement about, any losses that might occur beyond this level of confidence; and
- VaR does not capture all of the complex effects of the risk factors on the value of positions and portfolios and could underestimate potential losses.

*Additional information for the certain risks*

(a) Interest rate risk

To supplement the above limitations of VaR methodologies, the SMFG Group adopts various indices to measure and monitor the sensitivity of interest rates, including delta, gamma and vega risks. The SMFG Group considers BPV as one of the most significant indices to manage interest rate risk. BPV is the amount of change in the value to the banking and trading book as a result of a one-basis-point (0.01%) movement in interest rates. The principal SMFG Group companies use BPV to monitor interest rate risk, not only on a net basis, but also by term to prevent the concentration of interest rate risk in a specific period. The table “Outlier ratio” presented below is one of the sensitivity analyses for interest rate risk concerning the banking book using the BPV approach. In addition, as previously addressed, the SMFG Group enhances the risk management methods of VaR and BPV by using them in combination with back-testing and stress tests.

Interest rate risk substantially changes depending on the method used for recognizing the expected maturity dates of demand deposits that can be withdrawn at any time, or the method used for estimating the timing of cancellation prior to maturity of time deposits and consumer housing loans. At SMBC, the maturity of demand deposits that are expected to be left with the bank for a prolonged period is regarded to be, at the longest, five years (2.5 years on average), and the cancellation prior to maturity of time deposits and consumer housing loans is estimated based on historical data.

In the event the economic value of a bank declines by more than 20% of total capital as a result of interest rate shocks, that bank would fall into the category of “outlier bank,” as stipulated under Pillar 2 of the Basel Capital Accord. This ratio, known as the outlier ratio, was 1.9% for SMBC on a consolidated basis at March 31, 2017, substantially below the 20% criterion. The decline in economic value based on the outlier framework of SMBC on a consolidated basis is shown in the following table.

	<u>At March 31,</u>	
	<u>2017</u>	<u>2016</u>
	(In billions, except percentages)	
SMBC Consolidated		
Total	¥ 192.3	¥ 208.2
Impact of yen interest rates	79.2	41.2
Impact of U.S. dollar interest rates	85.4	109.8
Impact of euro interest rates	14.0	40.1
Percentage of total capital	1.9%	2.0%

Note: Decline in economic value is the decline of the present value of a banking portfolio after interest rate shocks (1st and 99th percentile of observed interest rate changes using a one-year holding period and an observation period of five years).

(b) Foreign exchange risk

The principal SMFG Group companies set risk limits for each currency to manage the concentration of the foreign currency position. The foreign exchange risk is immaterial as shown above in VaR by risk category.

(c) Strategic equity investment risk

The SMFG Group establishes limits on allowable risk for strategic equity investments and monitors the observance of those limits to keep stock price fluctuation risk within acceptable parameters. The SMFG Group has been reducing its strategic equity investments, and the balance is within a permitted level, which is less than 100% of the SMFG Group’s Tier 1 Capital.



### Liquidity risk management methods

The SMFG Group and SMBC regard liquidity risk as one of the major risks, and the SMFG Group identifies group companies which have significant liquidity risk. Each of the identified group companies, including SMBC, establishes a fundamental risk management framework. For example, SMBC manages liquidity risk based on a framework consisting of setting upper limits for “funding gaps,” maintaining highly liquid supplementary funding sources and establishing contingency plans.

A funding gap is defined as a maturity mismatch between a source of funds and the use of funds. SMBC actively manages this funding gap by setting limits on the size of gaps over a given time horizon and limiting reliance on short-term funding. These limits are established on both a SMBC-wide basis and individual branch basis, taking into account cash management planning, systemic factors, and funding status, among other factors. Additionally, funding gap limits are set for individual currencies if necessary. SMBC actively monitors funding gaps on a daily basis. Further, stress tests are regularly carried out by simulating the impact triggered, for example, by the outflow of deposits or having difficulties in funding from money markets, in order to thoroughly comprehend the amount required to fund when the liquidity risk is realized. Additionally, funding liquidity is maintained by holding assets, such as U.S. government bonds, which can be immediately converted to cash, or establishing borrowing facilities to be used as supplementary funding sources in an emergency, in order to smoothly raise the required funds even during market disruption.

Furthermore, contingency plans are developed to respond to the liquidity risk when being realized, by creating detailed action plans such as lowering the upper limit for the funding gap, depending on the existing situation (i.e. normal, concerned, or critical) and the respective circumstances.

### Maturity analysis of financial liabilities at March 31, 2017 and 2016

The following tables show a maturity analysis of the contractual undiscounted cash flows for financial liabilities at March 31, 2017 and 2016. The amount of interest on debt instruments is not included in the maturity tables below due to its insignificance.

	At March 31, 2017						Total
	On demand	Not later than three months	Later than three months and not later than one year	Later than one year and not later than three years	Later than three years and not later than five years	Later than five years	
	(In millions)						
<b>Non-derivative financial instruments:</b>							
Deposits . . . . .	¥ 76,476,402	¥ 32,358,045	¥ 16,420,032	¥ 3,303,700	¥ 961,405	¥ 755,341	¥130,274,925
Call money and bills sold . . . . .	30,563	2,052,776	362	4,319	—	—	2,088,020
Repurchase agreements and cash collateral on securities lent . . . . .	1,902	9,414,026	8,578	—	—	—	9,424,506
Trading liabilities . . . . .	2,071,584	—	—	—	—	—	2,071,584
Borrowings . . . . .	69,370	926,538	6,960,401	868,247	949,406	2,364,402	12,138,364
Debt securities in issue . . . . .	—	3,205,952	1,422,649	1,527,880	2,213,439	2,806,492	11,176,412
Lease payable . . . . .	—	7,042	20,859	48,550	30,408	6,129	112,988
Other financial liabilities . . . . .	2,223,233	4,863,181	11,397	14,966	12,458	75,902	7,201,137
<b>Off balance sheet items:</b>							
Loan commitments . . . . .	62,357,210	—	—	—	—	—	62,357,210
Financial guarantee contracts . . . . .	7,924,711	—	—	—	—	—	7,924,711
Total non-derivative financial instruments . . . . .	¥151,154,975	¥ 52,827,560	¥ 24,844,278	¥ 5,767,662	¥ 4,167,116	¥ 6,008,266	¥244,769,857
<b>Derivative financial instruments</b>	¥ 3,889,694	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 3,889,694

At March 31, 2016

	On demand	Not later than three months	Later than three months and not later than one year	Later than one year and not later than three years	Later than three years and not later than five years	Later than five years	Total
(In millions)							
<b>Non-derivative financial instruments:</b>							
Deposits . . . . .	¥ 70,422,036	¥ 34,168,661	¥ 15,628,231	¥ 3,914,994	¥ 864,321	¥ 918,857	¥125,917,100
Call money and bills sold . . . . .	28,646	1,188,985	1,566	1,259	—	—	1,220,456
Repurchase agreements and cash collateral on securities lent . . . . .	1,501	6,795,980	41,993	—	—	—	6,839,474
Trading liabilities . . . . .	2,197,673	—	—	—	—	—	2,197,673
Borrowings . . . . .	41,248	3,466,175	2,414,475	829,855	757,557	2,297,931	9,807,241
Debt securities in issue . . . . .	—	3,943,641	1,203,832	1,693,961	1,504,307	2,503,234	10,848,975
Lease payable . . . . .	—	6,161	18,212	42,598	33,324	9,710	110,005
Other financial liabilities . . . . .	1,898,916	3,924,652	17,561	16,148	13,624	64,610	5,935,511
<b>Off balance sheet items:</b>							
Loan commitments . . . . .	58,026,597	—	—	—	—	—	58,026,597
Financial guarantee contracts . . . . .	7,349,903	—	—	—	—	—	7,349,903
Total non-derivative financial instruments . . . . .	¥139,966,520	¥ 53,494,255	¥ 19,325,870	¥ 6,498,815	¥ 3,173,133	¥ 5,794,342	¥228,252,935
<b>Derivative financial instruments . . . . .</b>	<b>¥ 5,086,083</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ 5,086,083</b>

Notes:

1. Embedded derivatives which are separately accounted for, but presented together with the host contract in the consolidated statement of financial position are not included in the contractual tables above as they relate to the interest cash flow of the host contract, which are also not included in the tables above.
2. Derivative financial instruments are recorded at fair value and included in the column "On demand." These instruments are not used for hedging under IAS 39 and the fair value represents the cash flow on demand.

*Balance of loans and advances, and deposits at March 31, 2017 and 2016*

The following table presents the balance of loans and advances, and deposits at March 31, 2017 and 2016. The balance of deposits, which was mainly composed of individual customer deposits at March 31, 2017 and 2016, exceeded the balance of loans and advances at the same time due to the stable deposit base in Japan.

	At March 31,	
	2017	2016
(In millions)		
Loans and advances . . . . .	¥ 95,273,845	¥ 88,862,371
Deposits . . . . .	130,295,290	125,940,797

The following table presents a breakdown of deposits by domestic and foreign offices. Domestic inter-bank money was classified as “Call money and bills sold” and not included in “Deposits” in the consolidated statement of financial position. Over half of domestic deposits was composed of individual customer deposits.

	At March 31,	
	2017	2016
	(In millions)	
<b>Domestic offices:</b>		
Non-interest-bearing demand deposits	¥ 18,737,973	¥ 17,566,123
Interest-bearing demand deposits	48,879,089	44,975,104
Deposits at notice	1,066,201	874,581
Time deposits	22,269,409	22,921,709
Negotiable certificates of deposit	6,021,236	6,451,869
Others	7,290,869	7,242,800
Total domestic offices	<u>104,264,777</u>	<u>100,032,186</u>
<b>Foreign offices:</b>		
Non-interest-bearing demand deposits	1,115,579	1,097,531
Interest-bearing demand deposits	2,402,906	1,865,098
Deposits at notice	9,264,068	8,819,990
Time deposits	7,256,466	6,222,716
Negotiable certificates of deposit	5,859,702	7,797,966
Others	131,792	105,310
Total foreign offices	<u>26,030,513</u>	<u>25,908,611</u>
Total deposits	<u>¥130,295,290</u>	<u>¥125,940,797</u>

## Capital Management

The SMFG Group manages its capital by taking into consideration regulatory compliance and business development.

The SMFG Group’s capital management objectives are to maintain sufficient capital resources to meet the capital adequacy requirements and to maintain a strong capital base to support the development of its business.

### *External regulatory capital requirement*

The SMFG Group, SMFG and its principal banking subsidiaries in Japan rigidly abide by the capital adequacy guidelines set by the FSA in managing its capital. Japan’s capital adequacy guidelines are based on the Basel Capital Accord, which was proposed by the Basel Committee on Banking Supervision (“BCBS”) for uniform application to all banks which have international operations in industrialized countries. Japan’s capital adequacy guidelines may be different from those of central banks or supervisory bodies of other countries because the FSA designed them to suit the Japanese banking environment. The SMFG Group’s banking subsidiaries outside of Japan are also subject to the local capital ratio requirements.

In December 2010, the BCBS published the new Basel III rules text to implement the Basel III framework, which sets out higher and better-quality capital, better risk coverage, the introduction of a leverage ratio as a backstop to the risk-based requirement, measures to promote the build-up of capital that can be drawn down in periods of stress, and the introduction of two global liquidity standards. The main measures of the minimum capital requirements in the Basel III framework began on January 1, 2013 and will be fully applied from January 1, 2019.

These capital reforms increase the minimum common equity requirement from 2% to 4.5% and require banks to hold a capital conservation buffer, which started to be phased in from January 2016 with the initial ratio of 0.625% and will reach 2.5% by January 2019, to withstand future periods of stress, bringing the total common equity requirement to 7%. The Tier 1 capital requirement will also be increased from 4% to 6%, resulting in a total requirement of 8.5% when combined with the above-mentioned conservation buffer. The total capital requirement remains at the existing level of 8% but will increase to 10.5% by January 2019 due to the capital conservation buffer. Furthermore, a countercyclical buffer within a range of 0% to 2.5% of common equity or other fully loss-absorbing capital has been implemented according to national circumstances. The Group of Central Bank Governors and Heads of Supervision also agreed on transitional arrangements for implementing the new requirements.

In addition to the above-mentioned minimum capital requirements and capital buffer requirements under Basel III, organizations identified by the Financial Stability Board (“FSB”) as Global Systemically Important Banks (“G-SIBs”), which includes the SMFG Group, are required to maintain an additional 1% to 2.5% of Common Equity Tier 1 capital as a percentage of risk-weighted assets, which is commonly referred to as the G-SIB capital surcharge, based on the organization’s size, interconnectedness, substitutability, complexity and cross-jurisdictional activity as determined by the FSB. The amount of G-SIB capital surcharge that applies to the SMFG Group based on the FSB’s determination will be 1% of risk-weighted assets when the requirements are fully applied from 2019. Under the phase-in arrangement for the G-SIB capital surcharge, the SMFG Group is currently required to maintain 0.5% of Common Equity Tier 1 capital as a percentage of risk-weighted assets.

To reflect the Basel III framework, the FSA changed its capital adequacy guidelines. Under the FSA capital adequacy guidelines, the new capital requirements are being phased in from March 31, 2013 through March 31, 2019. The minimum Common Equity Tier 1 capital requirement and Tier 1 capital requirement have been 4.5% and 6%, respectively since March, 2015. The capital conservation buffer, countercyclical buffer and the G-SIB capital surcharge started to be phased in from March 31, 2016 under the FSA capital adequacy guidelines.

In accordance with the changes of the FSA capital adequacy guidelines, the SMFG Group changed its classification of capital into three tiers, referred to as Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital as follows:

Common Equity Tier 1 capital consists primarily of capital stock, capital surplus and retained earnings relating to common shares, and non-controlling interests that meet the criteria for inclusion in Common Equity Tier 1 capital.

Additional Tier 1 capital consists primarily of preferred securities and perpetual subordinated bonds.

Tier 2 capital consists primarily of subordinated debt securities.

The capital adequacy guidelines permit Japanese banks to choose from the standardized approach (“SA”), the foundation Internal Ratings-Based (“IRB”) approach and the advanced IRB approach for credit risk, and the basic indicator approach (“BIA”), the standardized approach (“TSA”) and the Advanced Measurement Approach (“AMA”) for operational risk. To be eligible to adopt the foundation IRB approach or the advanced IRB approach for credit risk, and TSA or AMA for operational risk, a Japanese bank must establish advanced risk management systems and receive prior approval from the FSA.

Adopting these approved approaches, the SMFG Group sets a target minimum total capital ratio of 8.0% on the SMFG Group’s consolidated basis, and both SMBC consolidated and nonconsolidated basis, and has complied with all externally imposed capital requirements throughout the period.

Failure of a Japanese bank, bank holding company or other financial institution to maintain the required risk-weighted capital ratios, may result in administrative actions or sanctions imposed by the FSA.

### Regulatory capital

The table below presents the SMFG Group's total capital ratio, total capital and risk-weighted assets under Japanese GAAP at March 31, 2017 and 2016 based on the Basel III rules.

	At March 31,	
	2017	2016
(In billions, except percentages)		
<b>SMFG Consolidated:</b>		
Total risk-weighted capital ratio	16.93%	17.02%
Tier 1 risk-weighted capital ratio	14.07%	13.68%
Common Equity Tier 1 risk-weighted capital ratio	12.17%	11.81%
Total capital (Common Equity Tier 1 capital + Additional Tier 1 capital + Tier 2 capital)	¥ 11,973.7	¥ 11,235.9
Tier 1 capital (Common Equity Tier 1 capital + Additional Tier 1 capital)	9,946.2	9,031.7
Common Equity Tier 1 capital	8,608.5	7,796.5
Risk-weighted assets	70,683.5	66,011.6
The amount of minimum total capital requirements <sup>(1)</sup>	5,654.7	5,280.9

(1) The amount of minimum total capital requirements is calculated by multiplying risk-weighted assets by 8%.

## 46 RELATED-PARTY TRANSACTIONS

### Transactions with Related Parties

The SMFG Group considers that its related parties include subsidiaries, associates, joint ventures, key management personnel and close family members of key management personnel. Any transactions between the SMFG Group and its subsidiaries meet the definition of related-party transactions. However, because these transactions are eliminated on consolidation, they are not disclosed as related-party transactions. Transactions between the SMFG Group and its related parties are conducted on substantially the same terms as third-party transactions.

The transaction amounts included in the accounts, in aggregate, by category of related party were as follows:

#### *Transactions with associates, joint ventures and other entities*

	At March 31,		
	2017	2016	
(In millions)			
<b>Assets:</b>			
Loans and advances	¥ 219,680	¥ 225,970	
Others	13,807	7,931	
<b>Liabilities:</b>			
Deposits	¥ 143,801	¥ 273,636	
Others	46,486	12,513	
<b>For the fiscal year ended March 31,</b>			
	2017	2016	2015
(In millions)			
<b>Income statement:</b>			
Income (interest income, fee and commission income, and others)	¥ 17,433	¥ 34,135	¥ 23,952
Expense (interest expense and others)	17,411	19,169	20,322

Financial guarantees issued by the SMFG Group for its associates at March 31, 2017 and 2016 were ¥63,597 million and ¥51,256 million, respectively.

Loan commitments to associates and joint ventures at March 31, 2017 and 2016 were ¥173,492 million and ¥134,198 million, respectively.

***Transactions with key management personnel and their close family members***

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the SMFG Group, directly or indirectly. The SMFG Group considers the members of the Board of Directors of SMFG and SMBC to constitute key management personnel for the purpose of this disclosure required under IAS 24 “Related Party Disclosures.”

	<u>At March 31,</u>	
	<u>2017</u>	<u>2016</u>
	(In millions)	
<b>Assets:</b>		
Loans and advances . . . . .	¥ 29	¥ 31
<b>Liabilities:</b>		
Deposits . . . . .	¥ 2,878	¥ 1,828
Others . . . . .	110	89

**Compensation of Key Management Personnel**

The following table presents the compensation expenses of key management personnel.

	<u>For the fiscal year ended March 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
	(In millions)		
Short-term employee benefits . . . . .	¥ 1,157	¥ 1,161	¥ 1,463
Share-based compensation . . . . .	204	214	251

The details of the share-based compensation plan are described in Note 39 “Share-Based Payment.”

There were no post-employment benefits, other long-term benefits and termination benefits for the fiscal years ended March 31, 2017, 2016 and 2015.

## 47 PRINCIPAL SUBSIDIARIES

### Principal Subsidiaries

The SMFG Group's principal subsidiaries at March 31, 2017 are shown in the list below. The SMFG Group consolidates all entities that the SMFG Group controls. The SMFG Group controls an entity when the SMFG Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

#### *Principal domestic subsidiaries*

Company Name	Proportion of Ownership Interest <sup>(1)</sup> (%)	Proportion of Voting Rights <sup>(1)</sup> (%)	Main Business
Sumitomo Mitsui Banking Corporation . . . . .	100.0	100.0	Commercial banking
SMBC Trust Bank Ltd. . . . .	100.0	100.0	Trust banking
THE MINATO BANK, LTD. . . . .	6.0	46.4 <sup>(2)</sup>	Commercial banking
Kansai Urban Banking Corporation . . . . .	59.9	60.1	Commercial banking
SMBC Guarantee Co., Ltd. . . . .	100.0	100.0	Credit guarantee
Sumitomo Mitsui Finance and Leasing Company, Limited . . . . .	60.0	60.0	Leasing
SMFL Capital Company, Limited . . . . .	100.0	100.0	Leasing
SMBC Nikko Securities Inc. . . . .	100.0	100.0	Securities
SMBC Friend Securities Co., Ltd. . . . .	100.0	100.0	Securities
Sumitomo Mitsui Card Company, Limited . . . . .	65.9	65.9	Credit card
Cedyna Financial Corporation . . . . .	100.0	100.0	Credit card and consumer credit
SMBC Consumer Finance Co., Ltd. . . . .	100.0	100.0	Consumer lending
Mobit Co., LTD. . . . .	100.0	100.0	Consumer lending
SMM Auto Finance, Inc. . . . .	51.0	51.0	Automobile sales financing
SMBC Finance Service Co., Ltd. . . . .	100.0	100.0	Collecting agent and factoring
The Japan Research Institute, Limited . . . . .	100.0	100.0	System development, data processing, management consulting and economic research
Sumitomo Mitsui Asset Management Company, Limited . . . . .	60.0	60.0	Investment advisory and investment trust management
SAKURA KCS Corporation . . . . .	50.2	50.2	System engineering and data processing
Financial Link Co., Ltd. . . . .	100.0	100.0	Data processing service and consulting
SMBC Venture Capital Co., Ltd. . . . .	40.0	40.0	Venture capital
SMBC Consulting Co., Ltd. . . . .	100.0	100.0	Management consulting and information services
Japan Pension Navigator Co., Ltd. . . . .	69.7	69.7	Operational management of defined contribution pension plans

(1) Percentages of proportion of ownership interest and proportion of voting rights have been truncated.

(2) The SMFG Group has a 6.0% direct holding in THE MINATO BANK, LTD., and can control a further 40.4% of the voting rights held by SMBC's retirement benefit trust under contractual agreements between SMBC and the retirement benefit trust.

*Principal foreign subsidiaries*

<u>Company Name</u>	<u>Country of Incorporation</u>	<u>Proportion of Ownership Interest<sup>(1)</sup></u> (%)	<u>Proportion of Voting Rights<sup>(1)</sup></u> (%)	<u>Main Business</u>
Sumitomo Mitsui Banking Corporation				
Europe Limited . . . . .	U.K.	100.0	100.0	Commercial banking
Sumitomo Mitsui Banking Corporation				
(China) Limited . . . . .	China	100.0	100.0	Commercial banking
Manufacturers Bank . . . . .	U.S.A.	100.0	100.0	Commercial banking
Banco Sumitomo Mitsui Brasileiro S.A . . .	Brazil	100.0	100.0	Commercial banking
JSC Sumitomo Mitsui Rus Bank . . . . .	Russia	100.0	100.0	Commercial banking
PT Bank Sumitomo Mitsui Indonesia . . . . .	Indonesia	98.4	98.4	Commercial banking
Sumitomo Mitsui Banking Corporation				
Malaysia Berhad . . . . .	Malaysia	100.0	100.0	Commercial banking
SMBC Leasing and Finance, Inc. . . . .	U.S.A.	100.0	100.0	Leasing
SMBC Aviation Capital Limited . . . . .	Ireland	90.0	90.0	Leasing
SMBC Nikko Securities America, Inc. . . . .	U.S.A.	100.0	100.0	Securities
SMBC Nikko Capital Markets Limited . . . . .	U.K.	100.0	100.0	Securities
SMBC Capital Markets, Inc. . . . .	U.S.A.	100.0	100.0	Derivatives

(1) Percentages of proportion of ownership interest and proportion of voting rights have been truncated.

THE MINATO BANK, LTD. and SMBC Venture Capital Co., Ltd. are accounted for as subsidiaries, despite the SMFG Group's holdings of less than 50% of the voting rights, because the SMFG Group is able to govern the financial and operating policies of these companies under a statute or an agreement, or by delegating the majority of the members of the board of directors.

The SMFG Group does not control some entities despite the fact that the SMFG Group holds more than 50% of their share capital, because the SMFG Group has entered into agreements with other investors to share or give those investors the power to govern the entities' financial and operating policies over these investees.

Some of the SMFG Group's subsidiaries may be subject to restrictions on the ability to transfer funds to SMFG in the form of cash dividends or to repay loans or advances, which include capital adequacy requirements imposed by the governments and central banks, and the Companies Act restrictions relating to dividends. In addition, the SMFG Group pledges assets as collateral to secure payables under repurchase agreements, securities lending transactions and securitizations, borrowings or for cash settlements, margins on derivative transactions and certain other purposes. The details of assets pledged are described in Note 38 "Assets Pledged and Received as Collateral."



## 48 STRUCTURED ENTITIES

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. It often has some or all of the following features or attributes:

- restricted activities;
- a narrow and well-defined objective;
- insufficient equity to permit the structured entity to finance its activities without subordinated financial support; or
- financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

During the normal course of business, the SMFG Group engages in numerous transactions involving structured entities. These structured entities are primarily used to provide the SMFG Group and its clients with efficient access to funds or investment opportunities, mainly through securitizations, investment funds and structured finance.

### Consolidated Structured Entities

Structured entities are consolidated if they are controlled by the SMFG Group in accordance with the accounting policy as described in Note 2 “Summary of Significant Accounting Policies.”

The consolidated structured entities include asset backed commercial paper (“ABCP”) conduits which purchase financial assets such as trade accounts receivable and lease receivables by issuing commercial paper to third-party investors. The SMFG Group has contractual agreements to provide liquidity and credit enhancement facilities which can be utilized by those structured entities upon their request.

At March 31, 2017 and 2016, the consolidated ABCP conduits had total assets of ¥1,017,221 million and ¥933,890 million, respectively. The total notional amounts of the liquidity and credit enhancement facilities provided by the SMFG Group to the consolidated ABCP conduits at March 31, 2017 and 2016 were ¥1,345,987 million and ¥1,165,463 million, respectively, all of which were undrawn.

The SMFG Group did not provide any financial or other support, without having a contractual obligation to do so, to consolidated structured entities during the fiscal years ended March 31, 2017 and 2016.

## Unconsolidated Structured Entities

The following tables represent the carrying amounts of the SMFG Group's interests in unconsolidated structured entities recognized in its consolidated statement of financial position by line item and the maximum exposure to loss from its interests at March 31, 2017 and 2016.

	At March 31, 2017				
	Securitized	Investment funds	Structured finance	Others	Total
	(In millions)				
<b>Interests in unconsolidated structured entities recognized in:</b>					
Trading assets . . . . .	¥ —	¥ 87,639	¥ —	¥ —	¥ 87,639
Investment securities . . . . .	6,716	1,162,195	69,705	551	1,239,167
Loans and advances . . . . .	1,919,703	—	5,092,321	501,180	7,513,204
Total . . . . .	¥ 1,926,419	¥ 1,249,834	¥ 5,162,026	¥ 501,731	¥ 8,840,010
<b>Maximum exposure to loss from interests in unconsolidated structured entities . . . . .</b>					
	¥ 2,495,428	¥ 1,251,497	¥ 6,232,900	¥ 702,236	¥ 10,682,061

	At March 31, 2016				
	Securitized	Investment funds	Structured finance	Others	Total
	(In millions)				
<b>Interests in unconsolidated structured entities recognized in:</b>					
Trading assets . . . . .	¥ —	¥ 170,696	¥ —	¥ —	¥ 170,696
Investment securities . . . . .	11,443	906,367	60,633	546	978,989
Loans and advances . . . . .	1,609,435	—	4,601,526	533,445	6,744,406
Total . . . . .	¥ 1,620,878	¥ 1,077,063	¥ 4,662,159	¥ 533,991	¥ 7,894,091
<b>Maximum exposure to loss from interests in unconsolidated structured entities . . . . .</b>					
	¥ 1,913,474	¥ 1,079,080	¥ 5,618,144	¥ 712,415	¥ 9,323,113

An interest in a structured entity refers to contractual and non-contractual involvement that exposes the SMFG Group to variability of returns from the performance of the structured entity. Such interests include the holding of equity or debt instruments as well as the provision of loans, loan commitments and guarantees. Interest rate and currency derivatives that expose the SMFG Group mainly to market risk, or CDS that are designed to transfer risk from the SMFG Group to a structured entity are not regarded as an interest in a structured entity since they do not expose the SMFG Group to variability of returns from the performance of the structured entity. These derivatives are therefore not included in the tables above.

The maximum exposure to loss from the SMFG Group's interests in unconsolidated structured entities represents the maximum amount of potential loss to which the SMFG Group is exposed through its involvement with unconsolidated structured entities. It is determined by the SMFG Group's carrying amounts and the notional amounts of loan commitments and guarantees, without considering the probability of loss being incurred, or effects of collateral or other credit protection.

The SMFG Group did not provide any financial or other support, without having a contractual obligation to do so, to unconsolidated structured entities during the fiscal years ended March 31, 2017 and 2016.

### *Securitizations*

Structured entities for this product are established to securitize third-parties' assets which mainly consist of auto loan receivables, residential and commercial mortgage loans and trade accounts receivables. These entities purchase those assets through loans or notes issued with multiple tranches. The SMFG Group provides loans and loan commitments to these entities or holds notes issued by them, in some cases with credit loss protection through guarantees or other credit enhancements provided by the sellers.

### *Investment Funds*

These funds are established for providing investment opportunities to investors by pooling money from them and investing mainly in equity and debt instruments based on a predetermined investment policy. The SMFG Group has invested in a number of these funds.

### *Structured Finance*

Structured entities for this product are typically established to raise funds for the development of infrastructure, the production of natural resources, the development or acquisition of real estate properties, and the purchase of certain equipment such as vessels or aircrafts for lease transactions. The SMFG Group provides financing to these entities mainly in the form of loans, loan commitments, or notes, which are typically secured by entities' assets or cash flows generated primarily by entities' projects.

### *Others*

The SMFG Group provides financing to other types of structured entities such as third-party structured entities and repackaging vehicles to facilitate its clients' funding requirements. The SMFG Group provides loans and loan commitments to these entities.

## **Sponsored Unconsolidated Structured Entities with No Interest Held by the SMFG Group**

The SMFG Group sponsors certain structured entities in which it has no interest. The SMFG Group is deemed to be a sponsor of a structured entity when the SMFG Group takes a leading role in determining its purpose and design, while providing operational support to ensure its continued operation.

The income received from such sponsored unconsolidated structured entities was ¥16,085 million for the fiscal years ended March 31, 2017. The majority of the income was management fees included in "Fee and commission income" and was from investment funds managed by SMAM, an asset management subsidiary, which became the SMFG Group's subsidiary in July 2016. The carrying amount of assets transferred to these entities for the fiscal years ended March 31, 2017, which mainly consisted of investment funds, was ¥1,479,572 million. The income and the carrying amount above for the fiscal year ended March 31, 2016 were not significant.

## **49 ACQUISITIONS**

### **Fiscal Year Ended March 31, 2017**

#### ***GE Japan GK (currently SMFL Capital Company, Limited)***

On April 1, 2016, SMFL acquired General Electric Company ("GE") group's leasing business in Japan by acquiring a 100% equity interest in GE Japan GK ("GE Japan"). The acquired leasing business is comprised mainly of equipment/asset leasing, small-ticket leasing, and automotive leasing. This acquisition was made for the purpose of upgrading the SMFG Group's marketing strategies and sales capabilities by leveraging GE Japan's know-how developed under GE, and offering a wide range of financial solutions by enhancing the combined client base of SMFL and GE Japan.

The fair values of assets and liabilities of GE Japan at the date of acquisition and the consideration paid were as follows:

	<u>At April 1, 2016</u> (In millions)
<b>Assets:</b>	
Loans and advances .....	¥ 470,538
All other assets .....	203,069
Total assets .....	<u>¥ 673,607</u>
<b>Liabilities:</b>	
Borrowings .....	¥ 436,537
All other liabilities .....	58,134
Total liabilities .....	<u>¥ 494,671</u>
Net assets .....	¥ 178,936
Non-controlling interests measured at their proportionate share of the identifiable net assets .....	(394)
Net assets acquired .....	178,542
Goodwill .....	2,417
Consideration .....	<u>¥ 180,959</u>
<b>Consideration:</b>	
Cash .....	¥ 180,959
Total .....	<u>¥ 180,959</u>
Acquisition related costs recognized as an expense in “General and administrative expenses” in the consolidated income statement .....	<u>¥ 752</u>

The fair value of the financial assets acquired included ¥470,668 million of loans and receivables to customers. The gross contractual amounts receivable were ¥488,335 million, of which ¥21,692 million were expected to be uncollectible.

The goodwill was attributable to the profitability of the acquired business and the synergies expected to arise after the acquisition. None of the goodwill recognized is expected to be deductible for income tax purposes.

GE Japan’s net profit since the acquisition date to March 31, 2017 was ¥8,041 million.

***Sumitomo Mitsui Asset Management Company, Limited***

On July 29, 2016, the SMFG Group acquired an additional 20% of the outstanding shares of Sumitomo Mitsui Asset Management Company, Limited (“SMAM”) and increased its equity interest in SMAM to 60%. As a result, the SMFG Group obtained control of SMAM.

Through this acquisition, the SMFG Group aims to enhance the SMFG Group’s services to comprehensively meet its clients’ needs for asset management.

The fair values of assets and liabilities of SMAM at the date of acquisition and the consideration paid were as follows:

	<u>At July 29, 2016</u>
	(In millions)
<b>Assets:</b>	
Cash and deposits with banks .....	¥ 15,411
Trading assets .....	12,030
Intangible assets .....	14,555
All other assets .....	11,007
Total assets .....	<u>¥ 53,003</u>
<b>Liabilities</b> .....	
Net assets .....	¥ 38,008
Non-controlling interests measured at their proportionate share of the identifiable net assets .....	(15,203)
Net assets acquired .....	22,805
Goodwill .....	38,053
Consideration .....	<u>¥ 60,858</u>
<b>Consideration:</b>	
Cash .....	¥ 20,286
Fair value of the equity interest in SMAM held before the acquisition .....	40,572
Total .....	<u>¥ 60,858</u>
Acquisition related costs recognized as an expense in “General and administrative expenses” in the consolidated income statement .....	<u>¥ 8</u>

The goodwill was attributable to the profitability of the acquired business and the synergies expected to arise after the acquisition. None of the goodwill recognized is expected to be deductible for income tax purposes.

As a result of remeasuring the previously held interest to fair value, the SMFG Group recognized a gain of ¥20,344 million, which was included in “Other income” in the consolidated income statement.

The revenue and profit or loss since the acquisition date to March 31, 2017 is immaterial to the consolidated financial statements.

#### ***Pro forma financial information***

It is estimated that the SMFG Group would have reported a total operating income of ¥3,358,377 million and a net profit of ¥741,214 million for the fiscal year ended March 31, 2017 if all acquisitions had occurred on April 1, 2016.

#### ***Cash consideration paid and cash acquired by obtaining control of the subsidiaries***

The total amount of cash consideration paid and cash acquired by obtaining control of subsidiaries during the fiscal year ended March 31, 2017 were as follows:

	<u>For the fiscal year ended</u>
	<u>March 31, 2017</u>
	(In millions)
Cash consideration paid .....	¥ (201,245)
Cash and cash equivalents transferred as a result of the acquisitions .....	1,889
Cash consideration paid, net of cash and cash equivalents acquired by obtaining control of the subsidiaries .....	<u>¥ (199,356)</u>

The amounts of assets and liabilities other than cash or cash equivalents in these subsidiaries were ¥724,721 million and ¥509,666 million, respectively.

### Fiscal Year Ended March 31, 2016

#### *Retail banking business of Citibank Japan Ltd.*

On November 1, 2015, SMBC Trust Bank, the SMFG Group's wholly owned subsidiary, acquired the retail banking business of Citibank Japan Ltd. ("Citibank Japan"), a wholly owned subsidiary of Citigroup Inc. SMBC Trust Bank allocated its non-voting stocks to Citibank Japan as consideration, and SMBC, SMFG's wholly owned subsidiary, acquired them in cash. Through this acquisition, SMBC Trust Bank is expanding its business model to offer additional products and services, including foreign currency investment products and global services. This acquisition is expected to enable the SMFG Group to expand its customer base, enhance its foreign currency funding source and improve the service capability of the Group as a whole.

The fair values of assets and liabilities of the retail banking business of Citibank Japan at the date of acquisition and the consideration paid were as follows:

	<u>At November 1, 2015</u>
	(In millions)
<b>Assets:</b>	
Cash and deposits with banks . . . . .	¥ 2,296,107
All other assets . . . . .	110,978
Total assets . . . . .	<u>¥ 2,407,085</u>
<b>Liabilities:</b>	
Deposits . . . . .	¥ 2,361,908
All other liabilities . . . . .	8,620
Total liabilities . . . . .	<u>¥ 2,370,528</u>
Net assets acquired . . . . .	36,557
Goodwill . . . . .	8,443
Consideration . . . . .	<u>¥ 45,000</u>
<b>Consideration:</b>	
Fair value of consideration transferred . . . . .	¥ 45,000
Total . . . . .	<u>¥ 45,000</u>
Acquisition related costs recognized as an expense in "General and administrative expenses" in the consolidated income statement . . . . .	<u>¥ 286</u>

The goodwill was attributable to the profitability of the acquired business and the synergies expected to arise after the acquisition. The goodwill and other intangible assets of ¥40,683 million are deductible for income tax purposes.

The revenue and profit or loss since the acquisition date to March 31, 2016 and pro forma financial information relating to the retail banking business of Citibank Japan are immaterial to the consolidated financial statements.

***Cash consideration paid and cash acquired by obtaining control of the subsidiaries and businesses***

The total amount of cash consideration paid and cash acquired by obtaining control of subsidiaries and businesses during the fiscal year ended March 31, 2016 were as follows:

	<u>For the fiscal year ended March 31, 2016</u>
	(In millions)
Cash consideration paid .....	¥ (46,923)
Cash and cash equivalents transferred as a result of the acquisitions .....	<u>2,296,517</u>
Cash consideration paid, net of cash and cash equivalents acquired by obtaining control of the subsidiaries and businesses .....	<u>¥ 2,249,594</u>

The amounts of assets and liabilities other than cash or cash equivalents in these subsidiaries and businesses were ¥175,263 million and ¥2,430,332 million, respectively.

**Fiscal Year Ended March 31, 2015**

There were no material acquisitions that were accounted for as business combinations during the fiscal year ended March 31, 2015.

After the Fiscal Year Ended March 31, 2017

***American Railcar Leasing LLC***

On June 1, 2017, the SMFG Group, through SMBC Rail Services LLC, which is a railcar operating leasing company and a subsidiary of SMBC Leasing and Finance, Inc., acquired all membership interests of American Railcar Leasing LLC, one of the leading railcar leasing companies in the United States. Through this acquisition, the SMFG Group aims to expand its railcar leasing business and enhance the services to fulfill various customer needs in a wide range of industries such as agriculture, petrochemical and natural resources.

Further information could not be disclosed as the initial accounting for the business combination is yet to be finalized due to proximity of the acquisition date to the date of authorization for issue of the consolidated financial statements.

## 50 CURRENT AND NON-CURRENT DISTINCTION

The following tables present an analysis of financial assets and liabilities, excluding cash and deposits with banks, trading assets and liabilities, and derivative financial instruments, by amounts recovered or settled, not more than twelve months or more than twelve months, at March 31, 2017 and 2016.

	At March 31, 2017		
	Amounts recovered or settled		
	Not more than twelve months	More than twelve months	Total
	(In millions)		
<b>Assets:</b>			
Call loans and bills bought	¥ 1,824,730	¥ 47,479	¥ 1,872,209
Reverse repurchase agreements and cash collateral on securities borrowed	8,851,521	72,864	8,924,385
Financial assets at fair value through profit or loss	—	1,599,093	1,599,093
Investment securities:			
Held-to-maturity investments	792,357	381,062	1,173,419
Available-for-sale financial assets	2,042,240	15,858,278	17,900,518
Loans and advances	32,655,787	62,618,058	95,273,845
Other financial assets	3,307,191	117,400	3,424,591
<b>Liabilities:</b>			
Deposits	¥125,254,104	¥ 5,041,186	¥130,295,290
Call money and bills sold	2,083,701	4,319	2,088,020
Repurchase agreements and cash collateral on securities lent	9,424,506	—	9,424,506
Borrowings	7,982,814	4,263,129	12,245,943
Debt securities in issue	4,628,884	6,536,739	11,165,623
Other financial liabilities	7,097,811	103,326	7,201,137
	At March 31, 2016		
	Amounts recovered or settled		
	Not more than twelve months	More than twelve months	Total
	(In millions)		
<b>Assets:</b>			
Call loans and bills bought	¥ 1,235,296	¥ 56,070	¥ 1,291,366
Reverse repurchase agreements and cash collateral on securities borrowed	8,157,904	78,612	8,236,516
Financial assets at fair value through profit or loss	—	1,611,877	1,611,877
Investment securities:			
Held-to-maturity investments	1,093,833	1,173,709	2,267,542
Available-for-sale financial assets	3,444,355	14,153,450	17,597,805
Loans and advances	29,410,283	59,452,088	88,862,371
Other financial assets	2,645,489	118,826	2,764,315
<b>Liabilities:</b>			
Deposits	¥120,219,012	¥ 5,721,785	¥125,940,797
Call money and bills sold	1,219,197	1,259	1,220,456
Repurchase agreements and cash collateral on securities lent	6,839,474	—	6,839,474
Borrowings	5,945,391	3,968,738	9,914,129
Debt securities in issue	5,147,326	5,682,286	10,829,612
Other financial liabilities	5,841,129	94,382	5,935,511



## 51 CONDENSED FINANCIAL INFORMATION OF REGISTRANT (SMFG)

### Condensed Statement of Financial Position

	At March 31,	
	2017	2016
	(In millions)	
<b>Assets:</b>		
Deposits with SMBC	¥ 728,445	¥ 502,450
Investments in SMBC	4,613,844	5,166,345
Loans to SMBC	3,424,217	1,406,565
Investments in other subsidiaries and associates	1,547,319	994,817
Other assets	58,670	12,104
Current tax assets	87,571	110,953
Total assets	<u>¥10,460,066</u>	<u>¥8,193,234</u>
<b>Liabilities and equity:</b>		
Short-term borrowings from SMBC	¥ 1,228,030	¥1,228,030
Long-term borrowings	132,806	49,000
Debt securities in issue due to other subsidiaries	280,784	275,300
Debt securities in issue	2,821,356	1,047,037
Other liabilities	22,612	10,804
Total liabilities	<u>4,485,588</u>	<u>2,610,171</u>
Shareholders' equity	5,527,691	5,285,632
Other equity instruments holders' equity	446,787	297,431
Total equity	<u>5,974,478</u>	<u>5,583,063</u>
Total equity and liabilities	<u>¥10,460,066</u>	<u>¥8,193,234</u>

### Condensed Income Statement

	For the fiscal year ended March 31,		
	2017	2016	2015
	(In millions)		
<b>Income:</b>			
Interest income from SMBC	¥ 52,938	¥ 18,313	¥ 9,641
Dividends from SMBC	408,419	522,636	485,449
Dividends from other subsidiaries and associates	20,428	20,508	18,649
Fees and commission income from subsidiaries	20,706	16,622	13,800
Other income	178	234	98
Total income	<u>502,669</u>	<u>578,313</u>	<u>527,637</u>
<b>Expense:</b>			
Interest expense to SMBC	4,474	5,753	5,895
Interest expense to other subsidiaries	13,039	12,780	16,170
Interest expense	45,223	12,814	8,886
Operating and other expense	12,165	9,868	10,712
Total expense	<u>74,901</u>	<u>41,215</u>	<u>41,663</u>
Profit before tax	427,768	537,098	485,974
Income tax expense	(33,344)	4	4
Net profit	<u>¥ 461,112</u>	<u>¥ 537,094</u>	<u>¥ 485,970</u>
Profit attributable to:			
Shareholders	453,183	534,321	485,970
Other equity instruments holders	7,929	2,773	—

## Condensed Statement of Cash Flows

	For the fiscal year ended March 31,		
	2017	2016	2015
	(In millions)		
<b>Operating Activities:</b>			
Profit before tax . . . . .	¥ 427,768	¥ 537,098	¥ 485,974
Income taxes paid—net . . . . .	23,427	(7,980)	(60,722)
Other operating activities—net . . . . .	(4,580)	(3,019)	(641)
Net cash and cash equivalents provided by operating activities . .	<u>446,615</u>	<u>526,099</u>	<u>424,611</u>
<b>Investing Activities:</b>			
Loans provided to SMBC . . . . .	(1,972,253)	(1,073,640)	(346,268)
Other investing activities—net . . . . .	(5)	(76)	(35)
Net cash and cash equivalents used in investing activities . . . . .	<u>(1,972,258)</u>	<u>(1,073,716)</u>	<u>(346,303)</u>
<b>Financing Activities:</b>			
Proceeds from issuance of long-term borrowings . . . . .	83,806	18,000	31,000
Proceeds from issuance of debt securities . . . . .	1,738,267	754,274	315,268
Redemption of debt securities . . . . .	—	—	(126,200)
Proceeds from issuance of other equity instruments . . . . .	149,081	297,431	—
Dividends paid to shareholders . . . . .	(211,501)	(218,589)	(176,271)
Coupons paid to other equity instruments holders . . . . .	(7,929)	(2,773)	—
Purchases of treasury stock and proceeds from sale of treasury stock—net . . . . .	(86)	(138)	(144)
Net cash and cash equivalents provided by financing activities . .	<u>1,751,638</u>	<u>848,205</u>	<u>43,653</u>
Net increase of cash and cash equivalents . . . . .	225,995	300,588	121,961
Cash and cash equivalents at beginning of period . . . . .	502,450	201,862	79,901
Cash and cash equivalents at end of period . . . . .	<u>¥ 728,445</u>	<u>¥ 502,450</u>	<u>¥ 201,862</u>

### Investments in subsidiaries and associates

Investments in subsidiaries and associates are stated at cost. SMFG recognizes dividend income from subsidiaries and associates when its right to receive payment is established.

Investments in other subsidiaries and associates include equity investments in SMFL, SMBC Nikko Securities, SMBC Friend Securities, SMFG Card & Credit, Inc., SMBC Consumer Finance, SMAM and others at March 31, 2017, and SMFL, SMBC Friend Securities, SMFG Card & Credit, Inc., SMBC Consumer Finance and others at March 31, 2016. These companies are incorporated in Japan, and the proportion of ownership interest of SMFG in these companies was the same as described in Note 11 “Investments in Associates and Joint Ventures,” and Note 47 “Principal Subsidiaries.”

### Long-term obligations

SMFG had perpetual subordinated bonds of ¥267 billion and ¥267 billion outstanding to its subsidiary, SMFG Preferred Capital JPY 3 Limited, at March 31, 2017 and 2016, respectively. The interest rates of these bonds are fixed until January 2020, which range from 4.0% to 4.5% per annum, and will be floating thereafter. SMFG Preferred Capital JPY 3 Limited issued preferred securities to purchase these bonds.

SMFG had subordinated long-term borrowings amounting to ¥49 billion and ¥49 billion at March 31, 2017 and 2016, respectively, and had unsubordinated long-term borrowings amounting to ¥84 billion and nil at March 31, 2017 and 2016, respectively. SMFG also had subordinated bonds amounting to ¥856 billion and ¥607 billion, including ¥7 billion and ¥1 billion outstanding to its subsidiary, at March 31, 2017 and 2016, respectively, and had senior bonds amounting to ¥1,979 billion and ¥449 billion, including ¥7 billion and ¥8 billion outstanding to its subsidiary, at March 31, 2017 and 2016, respectively. For additional information, refer to Note 18 “Borrowings” and Note 19 “Debt Securities in Issue.”

### **Guarantees**

SMFG provided guarantee of ¥516 billion and ¥224 billion at March 31, 2017 and 2016, respectively, to the Deposit Protection Fund of the Association of German Banks with regard to the deposits of the SMBC Dusseldorf branch.

## EXHIBIT INDEX

<u>Exhibit number</u>	<u>Description of Exhibit</u>
Exhibit 1.1	Articles of Incorporation of Sumitomo Mitsui Financial Group, Inc., as amended on June 29, 2017 (English translation)
Exhibit 1.2	Regulations of the Board of Directors of Sumitomo Mitsui Financial Group, Inc., as amended on June 29, 2017 (English translation)
Exhibit 1.3	Share Handling Regulations of Sumitomo Mitsui Financial Group, Inc., as amended on June 29, 2017 (English translation)
Exhibit 2.1	Form of Deposit Agreement among the registrant, Citibank, N.A., as Depository, and all owners and holders from time to time of American Depository Shares issued thereunder*
Exhibit 8	List of subsidiaries of Sumitomo Mitsui Financial Group, Inc., at March 31, 2017
Exhibit 11	Code of Ethics of Sumitomo Mitsui Financial Group, Inc.**
Exhibit 12.1	CEO Certification Required by Rule 13a-14(a) (17 CFR 240.13a-14(a))
Exhibit 12.2	CFO Certification Required by Rule 13a-14(a) (17 CFR 240.13a-14(a))
Exhibit 13.1	Certification Required by Rule 13a-14(b) (17 CFR 240.13a-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350)
Exhibit 13.2	Certification Required by Rule 13a-14(b) (17 CFR 240.13a-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350)
Exhibit 15.1	Consent of Independent Registered Public Accounting Firm

\* Incorporated by reference to our registration statement on Form 20-F (File No. 001-34919) filed on October 20, 2010.

\*\* Incorporated by reference to our annual report on Form 20-F (File No. 001-34919) filed on July 29, 2011.

(Translation)

This document has been translated from the Japanese original for reference purposes only.

**ARTICLES OF INCORPORATION  
OF  
KABUSHIKI KAISHA MITSUI SUMITOMO FINANSHARU GURUHPU  
(SUMITOMO MITSUI FINANCIAL GROUP, INC.)  
(as amended on June 29, 2017)**

**Chapter I. General Provisions**

**(Corporate Name)**

*Article 1.*

The name of the Corporation shall be Kabushiki Kaisha Mitsui Sumitomo Finansharu Guruhpu, which, in English, shall be “Sumitomo Mitsui Financial Group, Inc.”.

**(Purposes)**

*Article 2.*

The purposes of the Corporation shall be to engage in the following businesses as a bank holding company:

- (1) Management of banks and other corporations which are permitted to become, or to be established as, subsidiaries under the Banking Act and any business incidental thereto.
- (2) In addition to the businesses provided in the foregoing Item, any business in which a bank holding company is permitted to engage under the Banking Act.

**(Location of Head Office)**

*Article 3.*

The head office of the Corporation shall be located in Chiyoda-ku, Tokyo.

**(Governing Bodies)**

*Article 4.*

The Corporation shall have the following governing bodies in addition to meetings of shareholders and directors:

- (1) board of directors;
- (2) nominating committee, audit committee and compensation committee;
- (3) executive officers; and
- (4) accounting auditor

**(Method of Public Notice)**

*Article 5.*

Public notices given by the Corporation shall be electronic public notices; provided, however, that if the Corporation is unable to issue an electronic public notice due to an accident or any other unavoidable reason, public notices of the Corporation shall be made by placing them in the *Nihon Keizai Shimbun*.

## Chapter II. Shares

### (Total Number of Authorized Shares)

#### *Article 6.*

The total number of shares the Corporation is authorized to issue shall be three billion five hundred sixty four thousand (3,000,564,000) shares.

### (Total Number of Authorized Shares of Each Particular Class of Shares)

#### *Article 7.*

The total number of shares the Corporation is authorized to issue shall consist of three billion (3,000,000,000) common stocks, one hundred sixty seven thousand (167,000) type 5 preferred stocks, one hundred sixty seven thousand (167,000) type 7 preferred stocks, one hundred fifteen thousand (115,000) type 8 preferred stocks and one hundred fifteen thousand (115,000) type 9 preferred stocks.

### (Acquisition of Corporation's Own Shares)

#### *Article 8.*

Unless otherwise provided for in applicable laws and ordinances, the Corporation may, by resolution of the board of directors, acquire for value its own shares with agreement of shareholders pursuant to Item 1, Paragraph 1 of Article 459 of the Companies Act.

### (Number of Shares Constituting One Unit of Share)

#### *Article 9.*

The number of shares constituting one unit of share shall be one hundred (100) with respect to common stocks.

### (Rights with respect to Shares Constituting Less Than One Unit)

#### *Article 10.*

A shareholder may not exercise rights with respect to shares constituting less than one unit other than those specified in the following sections:

- (1) Rights specified in each item of Paragraph 2 of Article 189 of the Companies Act;
- (2) Right to make requests provided for in Paragraph 1 of Article 166 of the Companies Act;
- (3) Right to receive an allotment of shares for subscription or share options for subscription in accordance with the number of shares held by the shareholder; and
- (4) Right to make a request provided for in the following article.

### (Purchase of Shares Constituting Less Than One Unit)

#### *Article 11.*

A shareholder of shares constituting less than one unit may request the Corporation to sell to the shareholder such number of shares which will, when combined with the shares less than one unit already held by such shareholder, constitute one unit pursuant to the Share-Handling Rules.

### (Record Date)

#### *Article 12.*

1. The Corporation shall treat the shareholders entitled to vote and appearing or recorded on the register of shareholders at the close of March 31 of each year as the shareholders entitled to exercise their rights at the ordinary general meeting of shareholders to be held for the fiscal year ending on that date.

2. In addition to the foregoing Paragraph, the Corporation may, upon giving prior public notice, fix a record date whenever necessary.

**(Share Register Agent)**

*Article 13.*

1. The Corporation shall have a share register agent.
2. The share register agent and its place of business shall be decided by determination by executive officer(s) under the authority delegated by the board of directors and a public notice thereof shall be given.
3. Preparation, keeping and other administrative matters of, or relating to, the register of shareholders and the register of share purchase warrants of the Corporation shall be entrusted to the share register agent, and the Corporation shall not handle any such matters.

**(Share-Handling Rules)**

*Article 14.*

The entry and recording on the register of shareholders and all other matters pertaining to the handling of shares of the Corporation and the fees therefor shall be governed by the Share-Handling Rules to be enacted by executive officer(s) under the authority delegated by the board of directors.

**Chapter III. Preferred Stocks**

**(Preferred Dividends)**

*Article 15.*

1. In the event that the Corporation distributes dividends of surplus pursuant to Article 43 hereof, the Corporation shall distribute to the holders of preferred stocks (hereinafter referred to as the “Preferred Shareholders”) or the registered pledgees of preferred stocks (hereinafter referred to as the “Registered Preferred Stock Pledgees”), in preference to the holders of common stocks (hereinafter referred to as the “Common Shareholders”) or the registered pledgees of common stocks (hereinafter referred to as the “Registered Common Stock Pledgees”), cash dividends of surplus in the amounts set forth below (such cash dividends being hereinafter referred to as the “Preferred Dividends”), respectively; provided, however, that if Preferred Interim Dividends stipulated in Article 16 hereof were paid during the relevant fiscal year, the amount of such Preferred Interim Dividends shall be subtracted from the amount of Preferred Dividends.

The type 5 preferred stocks: amount not exceeding 200,000 yen per share and determined by resolution of the board of directors or determination by executive officer(s) under the authority delegated by the board of directors relating to the issuance of the shares

The type 7 preferred stocks: amount not exceeding 200,000 yen per share and determined by resolution of the board of directors or determination by executive officer(s) under the authority delegated by the board of directors relating to the issuance of the shares

The type 8 preferred stocks: amount not exceeding 300,000 yen per share and determined by resolution of the board of directors or determination by executive officer(s) under the authority delegated by the board of directors relating to the issuance of the shares

The type 9 preferred stocks: amount not exceeding 300,000 yen per share and determined by resolution of the board of directors or determination by executive officer(s) under the authority delegated by the board of directors relating to the issuance of the shares

2. If the amount of cash dividends of surplus paid to the Preferred Shareholders or the Registered Preferred Stock Pledgees is less than the amount of the Preferred Dividends in any fiscal year, such deficiency shall not be carried over for accumulation to the subsequent fiscal years.
3. The Corporation shall not pay dividends in excess of the amount of the Preferred Dividends to the Preferred Shareholders or the Registered Preferred Stock Pledgees.

#### **(Preferred Interim Dividends)**

##### *Article 16.*

In the event that the Corporation pays Interim Dividends pursuant to Article 44 hereof, the Corporation shall pay to the Preferred Shareholders or the Registered Preferred Stock Pledgees, in preference to the Common Shareholders or the Registered Common Stock Pledgees, Interim Dividends (hereinafter referred to as the "Preferred Interim Dividends") in the amount not exceeding one-half of the amount of the Preferred Dividends per preferred stock and determined by resolution of the board of directors or determination by executive officer(s) under the authority delegated by the board of directors relating to the issuance of the shares.

#### **(Liquidation Distributions of Residual Assets)**

##### *Article 17.*

1. In the event that the Corporation makes a liquidation distribution of residual assets, the Corporation shall make to the Preferred Shareholders or the Registered Preferred Stock Pledgees, in preference to the Common Shareholders or the Registered Common Stock Pledgees, a distribution of 3,000,000 yen per preferred stock.
2. Other than a distribution mentioned in the foregoing Paragraph, no liquidation distribution shall be made to the Preferred Shareholders or the Registered Preferred Stock Pledgees.

#### **(Provisions for Acquisition)**

##### *Article 18.*

1. The Corporation may acquire a part or the whole of the type 5 preferred stocks, the type 8 preferred stocks or the type 9 preferred stocks (i) on a day as shall be determined by resolution of the board of directors or by executive officer(s) under the authority delegated by the board of directors, (ii) in exchange for cash payment in the amount regarded to be appropriate in light of market price, the amount of liquidation distributions of residual assets relating to such preferred stocks, etc. as shall be determined by resolution of the board of directors or determination by executive officer(s) under the authority delegated by the board of directors by the time such preferred stocks are first issued. In the event that a part of such preferred stocks are acquired, the preferred stocks to be acquired shall be decided by lottery or by proportional allotment.
2. The Corporation shall acquire the whole of the type 5 preferred stocks, the type 7 preferred stocks, the type 8 preferred stocks and the type 9 preferred stocks without consideration or in exchange for common stocks (i) on the day (hereinafter referred to as the "Acquisition Event Occurrence Date") on which the events relating to a state of non-viability under the capital adequacy requirements applicable to the Corporation (hereinafter referred to as the "State of Non-Viability"), as shall be determined by resolution of the board of directors or determination by executive officer(s) under the authority delegated by the board of directors by the time such preferred stocks are first issued, have occurred or (ii) on a day prior to the Acquisition Event Occurrence Date, as shall be determined by resolution of the board of directors or determination by



executive officer(s) under the authority delegated by the board of directors after the occurrence of the State of Non-Viability. The calculation method for the number of common stocks in cases where common stocks are to be delivered in exchange for acquisition of the relevant preferred stocks and other terms of acquisition shall be reasonably determined by a resolution of the board of directors or determination by executive officer(s) under the authority delegated by the board of directors by the time such preferred stocks are first issued, in light of the capital adequacy requirements applicable to the Corporation, market price, the amount of liquidation distributions of residual assets relating to such preferred stocks, etc.

**(Voting Rights)**

***Article 19.***

No Preferred Shareholder shall have any voting rights at a general meeting of shareholders; provided that if a proposal to pay the Preferred Dividends is not submitted to an ordinary general meeting of shareholders, or if such a proposal is submitted but rejected at an ordinary general meeting of shareholders, the Preferred Shareholders shall have voting rights from the time of the ordinary general meeting of shareholders to which such proposal is not submitted, or from the time of conclusion of the ordinary general meeting of shareholders at which such proposal is rejected, as the case may be, until a resolution to pay the Preferred Dividends is made by an ordinary general meeting of shareholders.

**(Consolidation or Splits of Shares; Rights to Receive Allotment of Offered Shares, etc.)**

***Article 20.***

1. Unless otherwise provided for in applicable laws and ordinances, no consolidation or splits of shares shall be made with respect to preferred stocks.
2. The Corporation shall not give the Preferred Shareholders any rights to receive allotment of offered shares or share purchase warrants with respect to offered shares.
3. The Corporation shall not allot free of charge any shares of stock or share purchase warrants to the Preferred Shareholders.

**(Request for Acquisition of Shares)**

***Article 21.***

A Preferred Shareholder of the type 5 preferred stocks or the type 7 preferred stocks may request the Corporation to acquire his or her preferred stocks in exchange for common stocks. The period during which the acquisition may be requested (hereinafter referred to as the "Acquisition Request Period") in such case shall be reasonably determined by a resolution of the board of directors or determination by executive officer(s) under the authority delegated by the board of directors by the time of the first issuance of the relevant preferred stocks, provided that the last day of such Acquisition Request Period shall fall within twenty five (25) years after the date of issuance of the relevant preferred stocks. The number of common stocks to be delivered in exchange for acquisition of the relevant preferred stocks shall be obtained by dividing the amount of the subscription price of the relevant preferred stocks by the amount fixed in a manner as reasonably determined by a resolution of the board of directors or determination by executive officer(s) under the authority delegated by the board of directors by the time of the first issuance of the relevant preferred stocks (hereinafter referred to as the "Acquisition Rights Exercise Price"). Provided, however, that the initial Acquisition Rights Exercise Price shall be determined by reference to the amount regarded to be appropriate in light of market price, etc., and provided further that any fraction of less than one share arising as a result of calculation of the number of common stocks to be delivered pursuant to the foregoing shall be treated in accordance with the provisions of Article 167 of the Companies Act. Other terms and conditions of acquisition shall be reasonably determined by a resolution of the board of directors or determination by executive officer(s) under the authority delegated by the board of directors by the time of the first issuance of the relevant preferred stocks.

### **(Mandatory Acquisition)**

#### *Article 22.*

1. Any type 5 preferred stock or type 7 preferred stock with respect to which acquisition has not been requested during the Acquisition Request Period shall be mandatorily acquired by the Corporation, as of the date immediately following the last day of the Acquisition Request Period (hereinafter referred to as the “Mandatory Acquisition Date”), in exchange for such number of common stocks as is obtained by dividing the amount of subscription price per share paid for the preferred stock by the average of the daily closing prices (including quoted prices (kehai hyoji) if no closing prices are reported) per share of the Corporation’s common stocks by regular transactions at the Tokyo Stock Exchange for the thirty (30) trading days (disregarding trading days on which no such closing prices are available) commencing on the day forty-five (45) trading days prior to the Mandatory Acquisition Date. The average price shall be calculated in yen and rounded down to one decimal place and thereafter rounded to the nearest yen (0.5 being rounded upwards). Provided, however, that if such average price is less than the amount not less than five thousand yen (5,000) determined by resolution of the board of directors or determination by executive officer(s) under the authority delegated by the board of directors relating to the issuance of the relevant preferred stocks, then a preferred stock shall be acquired by the Corporation in exchange for such number of common stocks as is obtained by dividing the amount of subscription price per share paid for the preferred stock by such amount determined by such resolution.
2. Any fraction of less than one share arising as a result of calculation of the number of common stocks pursuant to the foregoing Paragraph shall be treated in accordance with the provisions of Article 234 of the Companies Act.

### **(Preference Order)**

#### *Article 23.*

The preference order of payment of Preferred Dividends, Preferred Interim Dividends and liquidation distributions of residual assets for preferred stocks issued by the Corporation shall be the same among the various types of preferred stocks.

## **Chapter IV. General Meetings of Shareholders**

### **(Convocation)**

#### *Article 24.*

1. An ordinary general meeting of shareholders shall be convened within three months after the close of each fiscal year and an extraordinary general meeting of shareholders may be convened whenever necessary.
2. Unless otherwise provided for in applicable laws and ordinances, a general meeting of shareholders shall be convened by the director concurrently serving as president and group chief executive officer pursuant to a resolution of the board of directors. Should the office of the director concurrently serving as president and group chief executive officer be vacant, or should the director concurrently serving as president and group chief executive officer fail or be unable to act, another of the directors shall act in his or her place in accordance with the seniority established in advance by the board of directors.

### **(Disclosure by Internet of Reference Documents, etc. for Shareholders Meeting and Deemed Provision)**

#### *Article 25.*

In connection with convocation of a general meeting of shareholders the Corporation may deem that the information relating to the matters to be described or shown in the reference documents for the shareholders meeting, the business report, financial statements and the consolidated financial statements, is provided to the shareholders by disclosing such information by internet as provided in the relevant Ministerial Ordinance of the Ministry of Justice.

**(Chairman)**

***Article 26.***

The chairman of the board or the director concurrently serving as president and group chief executive officer shall act as chairman at all general meetings of shareholders. Should both the chairman of the board and the director concurrently serving as president and group chief executive officer fail or be unable to act, another of the directors shall act in their place in accordance with the seniority established in advance by the board of directors.

**(Requirement for Resolutions)**

***Article 27.***

1. Unless otherwise provided for in applicable laws and ordinances or by these Articles of Incorporation, all resolutions at a general meeting of shareholders shall be adopted by a majority of all the voting rights held by the shareholders present thereat who are entitled to exercise the voting rights.
2. A resolution under Paragraph 2 of Article 309, of the Companies Act shall be adopted by two thirds or more of the voting rights held by the shareholders present at a general meeting of shareholders, who hold at least one third of the voting rights held by all the shareholders of the Corporation who are entitled to exercise the voting rights.

**(Exercise of Voting Rights by Proxy)**

***Article 28.***

1. A shareholder may exercise his or her voting rights by one proxy; provided, however, that the proxy must be a shareholder entitled to vote at the relevant general meeting of shareholders of the Corporation.
2. Either a shareholder or his or her proxy shall submit a power of attorney to the Corporation.

**(Shareholders' Meeting of a Particular Class of Shares)**

***Article 29.***

The provisions of Paragraph 2 of Article 24, Article 25, Article 26 and Article 28 hereof shall be applied *mutatis mutandis* to a shareholders' meeting of a particular class of shares.

**Chapter V. Directors and Board of Directors**

**(Number of Directors)**

***Article 30.***

The Corporation shall have three or more directors.

**(Election)**

***Article 31.***

1. A resolution for the election of directors shall be adopted at a general meeting of shareholders by a majority of the voting rights held by the shareholders present at the general meeting of shareholders and who hold not less than one third of voting rights of all the shareholders who are entitled to exercise the voting rights.
2. Such resolution may not be adopted by cumulative voting.

**(Term of Office)**

***Article 32.***

The term of office of a director shall expire upon conclusion of the ordinary general meeting of shareholders to be held for the last fiscal year ending within one year after the election of the director.

**(Board of Directors)**

***Article 33.***

1. The board of directors shall consist of all the directors of the Corporation currently in office.
2. The board of directors shall decide the business execution of the Corporation and supervise the execution of duties by executive officers and directors.
3. Unless otherwise provided for in applicable laws and ordinances, the board of directors may delegate decisions on the business execution to executive officers.
4. Unless otherwise provided for in applicable laws and ordinances, the chairman of the board shall convene, and act as chairman at, all meetings of the board of directors. Should the office of the chairman of the board be vacant, or should the chairman of the board fail or be unable to act, another of the directors shall act as chairman in accordance with the seniority established in advance by the board of directors.
5. Notice of a meeting of the board of directors shall be given to each director at least three days prior to the day set for such meeting; provided, however, that in case of emergency, such period of notice may be shortened.
6. Unless otherwise provided for in applicable laws and ordinances, all resolutions of the board of directors shall be adopted at a meeting of the board of directors at which a majority of all of the directors entitled to vote at the meeting are present, by a majority of such directors present at such meeting.
7. In the event that a director made a proposal with respect to a matter to be resolved at a meeting of the board of directors and all directors who are entitled to vote on such matter agree affirmatively in writing or by electronic means, it shall be deemed that a resolution of a meeting of the board of directors has been made to approve such proposal.

**(Titled Directors)**

***Article 34.***

The board of directors may by its resolution appoint from among its members, one chairman of the board and one or more deputy chairmen of the board.

**(Powers and Duties of Directors)**

***Article 35.***

1. The chairman of the board shall preside over the board of directors.
2. The deputy chairmen of the board shall assist the chairman of the board.

**(Limitation of Liability Agreement with Non-executive Directors, etc.)**

***Article 36.***

Pursuant to Paragraph 1 of Article 427 of the Companies Act, the Corporation may conclude with a non-executive director, etc. an agreement to limit the liability of the non-executive director, etc. under Paragraph 1 of Article 423 of the Companies Act, provided, however, that the limit of liability under such agreement shall be the higher of (i) the amount specified in advance which is not less than 10,000,000 yen or (ii) the amount specified by law.

## **Chapter VI. Nominating Committee, Audit Committee and Compensation Committee**

### **(Method of Appointment of Committee Members)**

#### *Article 37.*

The board of directors shall by its resolution appoint among its members, members of the nominating committee, audit committee and compensation committee.

### **(Authority, etc. of Each Committee)**

#### *Article 38.*

Authorities and other matters pertaining to the nominating committee, audit committee and compensation committee shall be governed by applicable laws and ordinances, these Articles of Incorporation and rules for each committee to be enacted by the board of directors.

## **Chapter VII. Executive Officers**

### **(Method of Election)**

#### *Article 39.*

The board of directors shall by its resolution elect executive officers.

### **(Term of Office)**

#### *Article 40.*

The term of office of an executive officer shall expire upon conclusion of the first meeting of the board of directors convened after conclusion of the ordinary general meeting of shareholders to be held for the last fiscal year ending within one year after the election of the executive officer.

### **(Representative Executive Officers and Titled Executive Officers)**

#### *Article 41.*

1. The board of directors shall by its resolution appoint one or more representative executive officers.
2. The board of directors may by its resolution appoint from among executive officers, one president and group chief executive officer and one or more deputy president and executive officer, senior managing executive officers and managing executive officers.

## **Chapter VIII. Accounts**

### **(Fiscal Year)**

#### *Article 42.*

The fiscal year of the Corporation shall commence on April 1 of each year and shall end on March 31 of the following year.

### **(Dividends of Surplus)**

#### *Article 43.*

Cash dividends of surplus shall be made by the Corporation pursuant to a resolution of a general meeting of shareholders to the shareholders or the registered share pledgees appearing or recorded on the final register of shareholders as of the last day of a fiscal year.

**(Interim Dividends)**

***Article 44.***

The Corporation may, by resolution of a meeting of the board of directors, distribute interim dividends to the shareholders or the registered share pledgees appearing or recorded on the final register of shareholders at the close of September 30 of each year.

**(Period of Limitations for Dividends)**

***Article 45.***

If any cash dividends shall remain unreceived after expiration of five years from the day on which such dividends shall have become due and payable, the Corporation shall be relieved of its obligation to pay such dividends.

**Supplementary Provision**

(Transitional Measures Concerning Limitation of Liability Agreement with Corporate Auditors)

***Article 1.***

The agreement to limit the liability of corporate auditors under Paragraph 1 of Article 423 of the Companies Act concluded with corporate auditors prior to the effective date of amendments to the Articles of Incorporation, to the effect that three committees shall be established, which have been resolved at the 15<sup>th</sup> ordinary general meeting of shareholders, shall be unchanged and as provided under Article 42 of the Articles of Incorporation prior to the amendments resolved at that ordinary general meeting of shareholders.

(End)

(Translation)

This document has been translated from the Japanese original for reference purposes only.

**Regulations of the Board of Directors  
of  
Sumitomo Mitsui Financial Group, Inc.  
(Amended as of June 29, 2017)**

**(Purpose)**

*Article 1*

These Regulations provide for matters regarding the Board of Directors of the Corporation, based on applicable laws and ordinances and the Articles of Incorporation.

**(Composition)**

*Article 2*

The Board of Directors of the Corporation shall consist of all the directors of the Corporation currently in office.

**(Authority)**

*Article 3*

The Board of Directors shall make decisions by resolutions for the execution of the Corporation's business and supervise the execution of the duties of the executive officers and directors.

**(Meeting of the Board of Directors)**

*Article 4*

Meetings of the Board of Directors shall be held at least once every three months and from time to time whenever necessary.

**(Persons Entitled to Convene a Meeting and the Chairman)**

*Article 5*

Unless otherwise provided for in applicable laws and ordinances, the Chairman of the Board shall convene, and act as chairman at, all meetings of the Board of Directors. Should the office of the Chairman of the Board be vacant, or should the Chairman of the Board fail or be unable to act, another of the directors shall act as chairman in accordance with the seniority established in advance by the Board of Directors.

**(Convocation Notice)**

*Article 6*

Notice of a meeting of the Board of Directors shall be given to each director at least three days prior to the day set for such meeting; provided, however, that in case of emergency, such period of notice may be shortened.

**(Requirement for Board Resolutions)**

*Article 7*

1. Unless otherwise provided for in applicable laws and ordinances, all resolutions of the Board of Directors shall be adopted at a meeting of the Board of Directors at which a majority of all of the directors entitled to vote at the meeting is present, by a majority of such directors present at such meeting.
2. In the event that a director made a proposal with respect to a matter to be resolved at a meeting of the Board of Directors and all directors who are entitled to vote on such matter agree affirmatively in writing or by electronic means, it shall be deemed that a resolution of a meeting of the Board of Directors has been made to approve such proposal.

**(Matters Subject to Board Resolutions)**

*Article 8*

1. The Board of Directors shall resolve the following matters:
  - (1) Matters relating to the basic management policy of the Corporation and the SMFG Group as a whole;
  - (2) Matters relating to convocation of a general meeting of shareholders and the proposals to be submitted to such a meeting (excluding those regarding to the election and dismissal of directors and accounting auditors, and the refusal to reelect accounting auditors);
  - (3) Approval of the Financial Statements and business reports, and the annexed detailed statements thereof, and Temporary Financial Statements and Consolidated Financial Statements;
  - (4) Appointment of directors with titles;
  - (5) Appointment and removal of the members and chairmen of the internal committees provided for in the following Article;
  - (6) Election and dismissal of executive officers;
  - (7) Appointment and removal of representative executive officers;
  - (8) Appointment of executive officers with titles;
  - (9) Determining matters regarding the assignments of, the allocation of duties and command hierarchy relationship of, and any other interrelationship between, the executive officers;
  - (10) Authorization of the executive officers and directors to engage in transactions competitive with those engaged in by the Corporation;
  - (11) Approval of transactions between the Corporation and executive officers, directors or major shareholders;
  - (12) Matters relating to interim dividends;
  - (13) Matters relating to the issuance of new shares and the Corporation's own shares;
  - (14) Matters relating to the transfer or acquisition of businesses and other transactions;
  - (15) Matters relating to merger agreements, absorption-type company split agreements, incorporation-type company split plans, share exchange agreements, and share transfer plans;
  - (16) Appointment of directors to receive requests for the calling of a meeting of the Board of Directors;
  - (17) Development of systems necessary to ensure that the audit work of the Auditing Committee is carried out effectively;
  - (18) Development of systems necessary to ensure that the execution of the executive officers' duties shall conform to laws and ordinances or the Articles of Incorporation and other systems necessary to ensure the appropriateness of the Corporation's work, and the work of corporate groups consisting of the Corporation and subsidiaries of the Corporation;



- (19) Appointment of representatives of the Corporation in litigation between members of the Audit Committee and the Corporation;
  - (20) Matters relating to the establishment, amendment and repeal of any important regulations (limited to regulations regarding the supervision of management); and
  - (21) Any other matters required by laws and ordinances, and matters considered important in the execution of the Corporation's business.
2. When resolving the appointment and removal of members of internal committees provided for in Item 5 of the preceding paragraph, the Board of Directors shall be considerate of the continuity of each committee.
  3. The Board of Directors shall delegate the decisions of other matters not provided for in Paragraph 1 to executive officers.

### **(Internal Committees)**

#### *Article 9*

1. The Corporation shall form a Nominating Committee, an Audit Committee, a Compensation Committee, and a Risk Committee as internal committees of the Board of Directors.
2. In addition to statutory matters, each committee shall make decisions or deliberate matters provided for in its regulations.
3. In addition to the committees provided for in Paragraph 1, the Board of Directors may form other optional committees by resolution of the Board of Directors.

### **(Matters to be Reported)**

#### *Article 10*

1. The Nominating Committee, the Audit Committee, the Compensation Committee, and the Risk Committee shall each select a member of its committee, and that member shall report without delay to the Board of Directors on the status of the execution of duties of the committee.
2. Executive officers shall report to the Board of Directors on the following matters, as well as on the status of the execution of their duties:
  - (1) Status of operations and the financial status of the Corporation and the SMFG Group as a whole;
  - (2) Status of risk management and compliance-related matters of the Corporation and throughout the SMFG Group; and
  - (3) The existence or occurrence of problems that are deemed to have a material effect on management.
3. Any director or executive officer who has engaged in a transaction competitive with the Corporation's business shall report to the Board of Directors on the important facts relating to such transaction.
4. If any director, executive officer or major shareholder has engaged in a transaction with the Corporation, such person shall report to the Board of Directors on the important facts relating to such transaction.
5. If requested to by the Board of Directors, an executive officer shall attend a meeting of the Board of Directors and provide to the Board of Directors an explanation on requested matters.
6. If a director, accounting auditor, or executive officer notifies all directors on the matters to be reported at a meeting of the Board of Directors, such matters need not be reported at such meeting. However, this does not include matters provided for in Paragraph 2.

### **(Minutes)**

#### *Article 11*

The proceedings at each meeting of the Board of Directors shall be recorded in the minutes of the meeting, and the directors present thereat shall affix their names and seals thereto.

**(Amendment or Repeal)**

***Article 12***

Any amendment or repeal of these Regulations shall be made by a resolution of the Board of Directors.

(End)

**(Translation)**

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**Share Handling Regulations**

**(as amended in June 2017)**

**Sumitomo Mitsui Financial Group, Inc.**

**(Translation)**

**Share Handling Regulations**

**of**

**Sumitomo Mitsui Financial Group, Inc.**

**(as amended on June 29, 2017)**

**Chapter I: General Provisions**

**(Purpose)**

*Article 1*

The handling of business with respect to shares of the Company shall be governed (i) by the rules prescribed by (x) the Japan Securities Depository Center, Inc. (hereinafter referred to as “JASDEC”) and (y) account management institutions, such as securities companies (hereinafter referred to as the “Securities Companies”) at which shareholders have their own transfer accounts, as well as (ii) by these Regulations pursuant to the Articles of Incorporation of the Company.

**(Transfer Agent)**

*Article 2*

The transfer agent of the Company and its place of share handling business shall be as follows:

Transfer Agent:

Sumitomo Mitsui Trust Bank, Limited  
4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo

Place of Share Handling Business:

Sumitomo Mitsui Trust Bank, Limited  
Stock Transfer Agency Business Planning Department  
4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo

## Chapter II: Records and Other Matters in Register of Shareholders

### (Records in Register of Shareholders)

#### *Article 3*

1. Any change of the matters recorded in the register of shareholders shall be made in accordance with a notice given by JASDEC, such as a notice concerning all shareholders (excluding the notice (hereinafter referred to as the “Individual Shareholder Notice”) provided for in Article 154, Paragraph 3 of the Law Concerning Book-Entry Transfer of Corporate Bonds, Stocks and Other Securities. (hereinafter referred to as the “Clearing Law”)).
2. In addition to the provisions of the immediately preceding Paragraph, in the case of issuance of new shares or in any other case provided for by laws or regulations, a change of the matters recorded in the register of shareholders shall be made without a notice from JASDEC.
3. Any record in the register of shareholders shall be made using the characters and/or symbols designated by JASDEC.

### (Notifications Regarding Matters Recorded in Register of Shareholders)

#### *Article 4*

1. Each shareholder and registered stock pledgee shall notify the name or the trade name, and the address of such shareholder and registered stock pledgee through the Securities Companies and JASDEC pursuant to the rules prescribed by JASDEC.
2. Any change of the matters notified under the immediately preceding Paragraph shall be notified.

### (Legal Representative)

#### *Article 5*

1. A legal representative of a shareholder and a registered stock pledgee such as a person in parental authority (*shinken-sha*) or a guardian (*koken-nin*) shall report the name or the trade name, and the address of such legal representative through the Securities Companies and JASDEC pursuant to the rules prescribed by JASDEC.
2. Any change or cancellation of the matters notified under the immediately preceding Paragraph shall be notified.

### (Standing Proxy or Temporary Address of Shareholder and Others Who Resides in Foreign Country)

#### *Article 6*

1. Each shareholder and registered stock pledgee or his/her legal representative or representative who resides in a foreign country shall appoint his/her standing proxy who resides in Japan or designate a mailing address in Japan, and report such proxy or address through the Securities Companies and JASDEC pursuant to the rules prescribed by JASDEC, in addition to those required to be notified under Article 4.
2. Any change or cancellation of the matters notified under the immediately preceding Paragraph shall be notified.
3. The provisions of Article 4 shall apply *mutatis mutandis* to a standing proxy.

### (Representative of Joint Shareholders)

#### *Article 7*

1. Joint shareholders shall designate one (1) representative and notify such representative through the Securities Companies and JASDEC pursuant to the rules prescribed by JASDEC.
2. The foregoing provision shall apply also to the case of replacement of such representative.

**(Notification of Representative)**

**Article 8**

1. Any shareholder and registered stock pledgee or its standing proxy, as long as it is a corporate body, shall notify one (1) person as its representative through the Securities Companies and JASDEC pursuant to the rules prescribed by JASDEC. The foregoing provision shall apply also to the case of replacement of such representative.
2. Any shareholder and registered stock pledgee, as long as it is an unincorporated association, shall designate one (1) representative and notify such representative through the Securities Companies and JASDEC pursuant to the rules prescribed by JASDEC. The foregoing provision shall apply also to the case of replacement of such representative.

**(Method of Identification through JASDEC)**

**Article 9**

Notifications that are submitted to the Company from a shareholder and a registered stock pledgee through the Securities Companies and JASDEC shall be deemed to have been submitted by such shareholder and registered stock pledgee himself/herself.

**Chapter III: Identification of Shareholders**

**(Identification of Shareholders)**

**Article 10**

1. In the event that a shareholder (including a shareholder who provided the Individual Shareholder Notice) makes requests or exercises any other rights entitled to shareholders (hereinafter referred to as the “Requests”), such shareholder shall attach or provide a document certifying that such Requests were made by such shareholder himself/herself (hereinafter referred to as the “Identification Document”), except where the Company is able to confirm that such Requests are made by such shareholder himself/herself.
2. In the event that the Requests are made by a shareholder to the Company through the Securities Companies and JASDEC, such Requests shall be deemed to have been made by such shareholder himself/herself and the Identification Document is not required.
3. In the event that the Requests are made by a proxy, the relevant shareholder shall, in addition to the procedures referred to in Paragraphs 1 and 2 of this Article, attach a power of attorney on which the shareholder has signed or affixed his/her printed name and seal. The name or the trade name, and the address of the proxy shall be described in the power of attorney.
4. The provisions of Paragraphs 1 and 2 of this Article shall apply *mutatis mutandis* to a proxy.

**Chapter IV: Purchase of Shares Less Than One Unit**

**(Method of Requesting Purchase)**

**Article 11**

When requesting purchase of shares less than one unit, such request shall be made through the Securities Companies and JASDEC pursuant to the rules prescribed by JASDEC.

**(Determination of Purchase Price)**

**Article 12**

The purchase price of shares less than one unit shall be the amount equal to the closing price quoted at the Tokyo Stock Exchange on the date on which the purchase request as described in the immediately preceding Article arrives at the place of share handling business of the transfer agent prescribed in Article 2 (hereinafter referred to as the “Purchase Request Date”), multiplied by the number of shares for which the purchase request is

made. Provided, however, that if there is no trading on the Purchase Request Date at the Tokyo Stock Exchange or the Purchase Request Date is a day on which the Tokyo Stock Exchange is closed, the purchase price shall be the amount equal to the price at which the first trade is made after such date, multiplied by the number of shares for which the purchase request is made.

#### **(Payment of Purchase Price)**

##### *Article 13*

1. The purchase price of shares less than one unit shall be paid pursuant to the rules prescribed by JASDEC on the date designated by the Company which shall be within five (5) business days following the date on which the purchase price is determined, unless the Company determines otherwise.
2. When offered by the party requesting the purchase, payment of the purchase price of shares less than one unit may be made by way of remittance into the bank account designated by such requesting party or by sending a giro system withdrawal slip (*furikae haraidashi-shousho*) to the address of the requesting party.
3. When the purchase price is paid pursuant to Paragraph 1 or Paragraph 2 of this Article, the purchase fee prescribed in Article 23 shall be deducted.

#### **(Transfer of Shares)**

##### *Article 14*

With respect to the shares less than one unit for which a purchase request is made, the rights thereof shall be transferred to the transfer account of the Company on the date on which the payment or the payment procedures prescribed in the immediately preceding Article is or are completed.

### **Chapter V: Sales of Shares Less Than One Unit**

#### **(Method of Requesting Sale)**

##### *Article 15*

When requesting a sale of shares less than one unit, such request shall be made through the Securities Companies and JASDEC pursuant to the rules prescribed by JASDEC.

#### **(Sale Request for Number of Shares Exceeding Remaining Number of Treasury Shares)**

##### *Article 16*

If an aggregate number of shares less than one unit for which sale requests are made in a day exceeds the number of shares held by the Company as treasury shares to be transferred, no such sale requests made on such day shall take effect.

#### **(Effective Date of Sale Request)**

##### *Article 17*

A sale request shall take effect on the date on which the sale request prescribed in Article 15 arrives at the place of share handling business of the transfer agent prescribed in Article 2.

#### **(Suspension Period of Sale Request)**

##### *Article 18*

1. Acceptance of sale requests shall be suspended during the period from the tenth (10th) business day immediately preceding any of the following dates up to the relevant date, every year:
  - (1) March 31;

- (2) September 30; and
  - (3) Any other date such as the determination date of shareholders designated by JASDEC.
2. Whenever the Company deems necessary, any other period during which the Company suspends acceptance of sale requests may be established in addition to those prescribed in the immediately preceding Paragraph.

**(Determination of Sale Price)**

*Article 19*

The sale price of shares less than one unit shall be the amount equal to the closing price quoted at the Tokyo Stock Exchange on the date on which the sale request takes effect, multiplied by the number of shares for which the sale request is made. Provided, however, that if there is no trading on the effective date of the sale request at the Tokyo Stock Exchange or the effective date of the sale request is a day on which the Tokyo Stock Exchange is closed, the sale price shall be the amount of the price at which the first trade is made after such date multiplied by the number of shares for which the sale request is made.

**(Transfer of Sold Shares)**

*Article 20*

Application for the transfer of shares, in the number equivalent to the number of shares for which the sale request is made, to the transfer account of the shareholder who made such sale request shall be made, by the Company, on the day on which it is confirmed that the amount of the sale price prescribed in the immediately preceding Article together with the amount of the fees prescribed in Article 23 has been remitted by the shareholder to the bank account designated by the Company, through the Securities Companies, pursuant to the rules prescribed by JASDEC.

**Chapter VI: Exceptions in respect of Special Account**

**(Exceptions in respect of Special Account)**

*Article 21*

Identification of the shareholder for whom a special account is opened and any other handling business regarding such special account shall be governed by the rules prescribed by the account management institution for such special account as well as by the rules prescribed by JASDEC.

**Chapter VII: Procedures for Exercise of Shareholders' Rights**

**(Minority Shareholders' Rights and Others)**

*Article 22*

1. In the event that a shareholder directly exercises against the Company the minority shareholders' rights or other rights prescribed in Article 147, Paragraph 4 of the Clearing Law, the shareholder shall exercise such rights upon (i) providing the Individual Shareholder Notice and (ii) submitting to the Company a document with his/her signature, or printed name and seal affixed thereon.
2. With respect to the agenda for a shareholders' meeting proposed by shareholders, in the event that the Company describes, in the reference documents for the shareholders' meeting, (i) the reason for proposal of such agenda, and (ii) when such agenda is about the election of officers, the matters relating to the candidates for officers, the description exceeding 400 characters may be summarized.

## Chapter VIII: Fees

### (Fees)

#### Article 23

The amount of fees payable for the handling of shares shall be as follows:

For the purchase of shares less than one unit pursuant to the provisions of Article 11 and the acceptance of the sale request of the shares less than one unit pursuant to the provision of Article 15:

The amount equal to the per-unit amount obtained by the following formula multiplied by the proportion of the number of shares less than one unit purchased or sold against the number of shares for one (1) unit, with any fraction of less than one (1) yen resulting from such calculation being rounded off:

(Formula)

Of the purchase price or the sale price per unit:

Portion representing yen 1 million or less	1.150%
Portion representing more than yen 1 million but not exceeding yen 5 million	0.900%
Portion representing more than yen 5 million but not exceeding yen 10 million	0.700%
Portion representing more than yen 10 million but not exceeding yen 30 million	0.575%
Portion representing more than yen 30 million but not exceeding yen 50 million	0.375%

Or yen 2,500 if the per-unit amount calculated by the above formula falls below yen 2,500.

## Chapter IX: Preferred Stock

### (Scope of Application of this Chapter)

#### Article 24

Notwithstanding the provisions of Chapter II through Chapter VIII, the provisions of Chapter I and this Chapter shall apply to the shares of preferred stock that are not listed.

### (Requests and Notifications Concerning Preferred Stock)

#### Article 25

1. Procedures prescribed in this Chapter and procedures for requests, offers, notifications or applications concerning the matters that the Company entrusts to the transfer agent for handling shall be made to the transfer agent.
2. Any request, offer, notification or application prescribed in this Chapter shall be made in the form designated by the Company, with the seal notified pursuant to the provisions of Article 28 affixed thereon.
3. In the event that any request, offer, notification or application as described in this Chapter is made by a proxy or requires consent of a protector (*hosanin*) or an assistant (*hojonin*), a document evidencing the authority of such proxy or such consent, shall be submitted.

### (Registration of Transfer of Preferred Stock)

#### Article 26

1. In the case of a request for entries or records in the register of holders of the preferred stock (hereinafter referred to as the "Registration of Transfer"), a written request therefor, with the signatures of both the holder of the preferred stock (hereinafter referred to as the "Preferred Shareholder") and the person who acquired such preferred stock affixed thereon, shall be submitted.



2. In the event that a request for the Registration of Transfer is made with respect to the preferred stock transferred due to any event other than assignment, a document evidencing such transfer shall be submitted.
3. If any special procedure is required by laws and regulations in connection with transfer of the preferred stock, a written request therefor shall be submitted together with a document evidencing the completion of such procedure.

#### **(Registration of Pledges on Preferred Stock or Cancellation Thereof)**

##### *Article 27*

In the case of a request for the registration of pledges on the preferred stock, change or cancellation thereof, a written request therefor, with the signatures of both a pledgor and a pledgee affixed thereon, shall be submitted.

#### **(Address, Name and Seal of Preferred Shareholders)**

##### *Article 28*

1. Each Preferred Shareholder and registered stock pledgee or his/her legal representative or representative shall notify his/her address, name and seal; provided, however, that foreigners, who have a custom of using signatures, may substitute their specimen signatures instead of a seal.
2. Any change of the matters notified under the immediately preceding Paragraph shall be notified.

#### **(Standing Proxy or Temporary Address of Preferred Shareholder Who Resides in Foreign Country)**

##### *Article 29*

1. Each Preferred Shareholder and registered stock pledgee or his/her legal representative or representative who resides in a foreign country shall appoint his/her standing proxy who resides in Japan or designate a mailing address in Japan, and notify such proxy or address, in addition to those required to be reported under the immediately preceding Article.
2. Any change of the matters notified under the immediately preceding Paragraph shall be notified.
3. The provisions of the immediately preceding Article shall apply *mutatis mutandis* to a standing proxy.

#### **(Representative of Joint Preferred Shareholders)**

##### *Article 30*

1. Joint Preferred Shareholders shall designate one (1) representative and notify such representative.
2. The foregoing provision shall apply also to the case of replacement of such representative.

#### **(Notification of Representative)**

##### *Article 31*

1. Any Preferred Shareholder and registered stock pledgee or its standing proxy, as long as it is a corporate body, shall designate one (1) representative and notify such representative. The foregoing provision shall apply also to the case of replacement of such representative, and a notification together with a certificate for registered matters shall be submitted.
2. Any Preferred Shareholder and registered stock pledgee, as long as it is an unincorporated association, shall designate one (1) representative and notify such representative. The foregoing provision shall apply also to the case of replacement of such representative.

**(Change in Register of Shareholders)**

**Article 32**

In the case of any change in the register of shareholders due to any of the following reasons, a notification together with a document evidencing such change shall be submitted:

- (1) Change of first name or given name;
- (2) Appointment, replacement or cancellation of a legal representative such as a person in parental authority (*shinken-sha*) or a guardian (*kouken-nin*);
- (3) Change of trade name or corporate name; and
- (4) Entity conversion of corporate body.

**(Method for Request for Acquisition)**

**Article 33**

1. In the event that any Preferred Shareholder holding Class 5 Preferred Stock or Class 7 Preferred Stock requests for the acquisition of the relevant preferred stock, in exchange for the delivery of shares of common stock, a written request shall be submitted to the place of share handling business of the transfer agent prescribed in Article 2.
2. The request for acquisition may not be cancelled after submitting the written request therefor.

**(Effect of Request for Acquisition)**

**Article 34**

The request for acquisition of preferred stock shall come into effect on the date on which the written request therefor arrives at the place of share handling business of the transfer agent.

**(Application Mutatis Mutandis of Procedures for Exercise of Shareholders' Rights)**

**Article 35**

Provisions of Article 22, Paragraph 1 shall apply mutatis mutandis to the preferred stock; provided, however, that it is not necessary to submit the receipt of the Individual Shareholder Notice.

**(Exceptional Treatment)**

**Article 36**

When any provision contrary hereto is adopted by resolution for the issuance of shares of preferred stock or otherwise in connection with the provisions of this Chapter, such provision shall prevail.

**(Amendment and Repeal)**

**Article 37**

Any amendment or repeal of these Regulations shall be made by a resolution of the group management committee.

**LIST OF SUBSIDIARIES OF SUMITOMO MITSUI FINANCIAL GROUP, INC.**

**List of Subsidiaries at March 31, 2017**

<u>Company Name</u>	<u>Jurisdiction</u>
Sumitomo Mitsui Banking Corporation	Japan
Banco Sumitomo Mitsui Brasileiro S.A.	Brazil
Cedyna Financial Corporation	Japan
Financial Link Co., Ltd.	Japan
Japan Pension Navigator Co., Ltd.	Japan
JSC Sumitomo Mitsui Rus Bank	Russia
Kansai Urban Banking Corporation	Japan
Manufacturers Bank	U.S.A.
Mobit Co., LTD.	Japan
PT Bank Sumitomo Mitsui Indonesia	Indonesia
Sakura Finance Asia Limited	Hong Kong
SAKURA KCS Corporation	Japan
SFVI Limited	British Virgin Islands
SMBC Aviation Capital Limited	Ireland
SMBC Capital India Private Limited	India
SMBC Capital Markets, Inc.	U.S.A.
SMBC Cayman LC Limited	Cayman Islands
SMBC Consulting Co., Ltd.	Japan
SMBC Consumer Finance Co., Ltd.	Japan
SMBC DIP Limited	Cayman Islands
SMBC Electronic Monetary Claims Recording Co., Ltd.	Japan
SMBC Finance Service Co., Ltd.	Japan
SMBC Financial Services, Inc.	U.S.A.
SMBC Friend Securities Co., Ltd.	Japan
SMBC GMO PAYMENT, Inc.	Japan
SMBC Guarantee Co., Ltd.	Japan
SMBC International Finance N.V.	Netherlands Antilles
SMBC Leasing and Finance, Inc.	U.S.A.
SMBC Loan Business Planning Co., Ltd.	Japan
SMBC MVI SPC	Cayman Islands
SMBC Nikko Capital Markets Limited	U.K.
SMBC Nikko Securities America, Inc.	U.S.A.
SMBC Nikko Securities Inc.	Japan
SMBC Preferred Capital GBP 1 Limited	Cayman Islands
SMBC Preferred Capital GBP 2 Limited	Cayman Islands
SMBC Preferred Capital JPY 1 Limited	Cayman Islands
SMBC Preferred Capital JPY 2 Limited	Cayman Islands
SMBC Preferred Capital USD 1 Limited	Cayman Islands
SMBC Preferred Capital USD 3 Limited	Cayman Islands
SMBC Principal Finance Co., Ltd.	Japan
SMBC Servicer Co., Ltd.	Japan
SMBC Trust Bank Ltd.	Japan
SMBC Venture Capital Co., Ltd.	Japan
SMFG Card & Credit, Inc.	Japan
SMFG Preferred Capital GBP 1 Limited	Cayman Islands
SMFG Preferred Capital GBP 2 Limited	Cayman Islands
SMFG Preferred Capital JPY 1 Limited	Cayman Islands

**Company Name**

SMFG Preferred Capital JPY 2 Limited  
SMFG Preferred Capital JPY 3 Limited  
SMFG Preferred Capital USD 1 Limited  
SMFG Preferred Capital USD 3 Limited  
SMFL Capital Company, Limited  
SMM Auto Finance, Inc.  
Sumitomo Mitsui Asset Management Company, Limited  
Sumitomo Mitsui Banking Corporation Europe Limited  
Sumitomo Mitsui Banking Corporation Malaysia Berhad  
Sumitomo Mitsui Banking Corporation (China) Limited  
Sumitomo Mitsui Card Company, Limited  
Sumitomo Mitsui Finance and Leasing Company, Limited  
Sumitomo Mitsui Finance Dublin Limited  
The Japan Research Institute, Limited  
THE MINATO BANK, LTD.

**Jurisdiction**

Cayman Islands  
Cayman Islands  
Cayman Islands  
Cayman Islands  
Japan  
Japan  
Japan  
U.K.  
Malaysia  
China  
Japan  
Japan  
Ireland  
Japan  
Japan

**CERTIFICATIONS PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Takeshi Kunibe, certify that:

1. I have reviewed this annual report on Form 20-F of Sumitomo Mitsui Financial Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: June 29, 2017

/s/ Takeshi Kunibe

Name: Takeshi Kunibe

Title: President and Group Chief Executive Officer

**CERTIFICATIONS PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jun Ohta, certify that:

1. I have reviewed this annual report on Form 20-F of Sumitomo Mitsui Financial Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: June 29, 2017

/s/ Jun Ohta

Name: Jun Ohta

Title: Deputy President and Executive Officer  
Group Chief Financial Officer

**CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The certification set forth below is being submitted in connection with the annual report of Sumitomo Mitsui Financial Group, Inc. on Form 20-F for the year ended March 31, 2017 (the “Report”) for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code.

I, Takeshi Kunibe, President and Group Chief Executive Officer of Sumitomo Mitsui Financial Group, Inc., certify that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Sumitomo Mitsui Financial Group, Inc. and its subsidiaries.

Date: June 29, 2017

/s/ Takeshi Kunibe

Name: Takeshi Kunibe

Title: President and Group Chief Executive Officer

**CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The certification set forth below is being submitted in connection with the annual report of Sumitomo Mitsui Financial Group, Inc. on Form 20-F for the year ended March 31, 2017 (the “Report”) for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code.

I, Jun Ohta, Deputy President and Executive Officer Group Chief Financial Officer of Sumitomo Mitsui Financial Group, Inc., certify that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Sumitomo Mitsui Financial Group, Inc. and its subsidiaries.

Date: June 29, 2017

/s/ Jun Ohta

Name: Jun Ohta

Title: Deputy President and Executive Officer  
Group Chief Financial Officer



**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
Sumitomo Mitsui Financial Group, Inc.:

We consent to the incorporation by reference in the registration statement (No. 333-209069) on Form F-3 of Sumitomo Mitsui Financial Group, Inc. of our reports dated June 23, 2017, with respect to the consolidated statement of financial position of Sumitomo Mitsui Financial Group, Inc. and subsidiaries as of March 31, 2017 and 2016, and the related consolidated income statement and consolidated statements of comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended March 31, 2017 and the effectiveness of Sumitomo Mitsui Financial Group, Inc.'s internal control over financial reporting as of March 31, 2017, which reports appear in the March 31, 2017 annual report on Form 20-F of Sumitomo Mitsui Financial Group, Inc.

/s/ KPMG AZSA LLC

Tokyo, Japan  
June 29, 2017