

Message from the Group CEO

By achieving sustainable growth through the speedy execution of operations and the continuous evolution of our business model we will become “A top tier global financial group that delivers the highest quality in all aspects of our business.”

Takeshi Kunibe

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We extend our sincerest appreciation to our stakeholders for your continued support and patronage. In this year's edition of the SMBC Group Report, I would like to share with you my thoughts as Group CEO in regards to SMBC Group's corporate vision and our initiatives to enhance corporate value.

Our Business Environment

Fiscal 2017 marked the 10th anniversary of the global financial crisis which originated in the United States. In the financial industry it is said that a financial crisis occurs once every 10 years, and 10 years ago, a global financial crisis was triggered by the U.S. subprime loan problem. Ten years before that, Japan's deteriorating nonperforming loans problem raised concerns about the possibility of a banking panic, which was followed by a period of prolonged deflation and major consolidation within the financial industry. While these events rocked the very foundations of the banking business, looking back now, we can see that they also triggered major changes in financial institutions' business models, for example through the strengthening of international financial regulations. As a result of having experienced and overcome these challenges on the front lines of the financial industry, I am very conscious of the fact that we cannot survive unless we continuously evolve as a financial institution.

Looking at the prevailing economic and financial environment, we can see that the ripples of economic recovery have spread worldwide, and market trends have been upbeat, with no visible turmoil as we would expect based on the 10 year jinx. However, as a banker with more than 40 years' experience, I believe that we must be fully aware of the risks arising from a substantial paradigm shift taking place in the world of finance.

For example, while North America and Europe are leading the move towards exiting quantitative easing, excess liquidity and low interest rates remain a global phenomenon. Especially in Japan, financial institutions are faced with the tough challenge of generating profits under the Bank of Japan's negative interest rate policy. In regards to overseas businesses, which are one of our growth drivers, in order to realize foreign currency funding operations which can underpin sustainable growth, attention must be paid to quality, such as cost and duration, in addition to volume. Furthermore, while businesses in Asian emerging market economies are presented with opportunities to grow and expand as global economic growth is increasingly being driven by emerging market economies, the resulting change in the balance of power between developed and emerging market economies is destabilizing the traditional order of the international community, leading in part to heightened geopolitical risk and protectionism. Thus, when conducting business overseas, target markets must be carefully selected and risks need to be diversified.

The spread of digitalization in recent years has brought about dramatic changes in how the economy and society function, as well as in business models and individual lifestyles. The financial industry is no exception, as the emergence of FinTech has brought about significant changes in the competitive environment. In fact, the very foundations of the financial industry are facing change. It is no exaggeration to say that success or failure will be determined by the ability to efficiently incorporate the latest technologies into business operations by riding the wave of digitalization that is sweeping through society to provide innovative new services and improve productivity.

Although such trends may give rise to a certain sense of pessimism regarding the futures of the financial and banking industries, I believe they present an excellent opportunity for us to push ahead

with reforms amid the various structural and environmental changes. I view finance as a very exciting business to be in; one that will undergo further growth as part of the information industry.

In the past, we at SMBC Group have overcome numerous challenges and enhanced the quality of our corporate infrastructure via the flexible and timely shifting of target businesses by expanding the scope of our operations and the markets in which we operate based on the changing needs of the times. In terms of digitalization, while it is inevitable that this trend will increase competition, which in turn will have a downward effect on fees, I am confident that we can differentiate ourselves from our competitors by expanding our business while also enhancing quality. We will achieve this by driving innovation through the effective application of the abundant data we possess and proactively harnessing evolving technologies such as AI, IoT, robotics, and blockchain.

Points of Focus Amid Structural Changes

I believe that in such times of ever accelerating change, it is important for a CEO to present a vision and put every effort into evolving one's own business model based on a perspective that is one step ahead of the times.

Four years ago at SMBC Group, we formulated our Medium- to Long-Term Vision "To be a global financial group that leads growth in Japan and Asia by earning the highest trust of our customers," which describes the kind of financial institution we will aim to become over the next decade. At the time, the Japanese economy was beginning to recover under Abenomics, and we were moved to clarify our vision for the future. This was based on our conviction that as a financial institution we needed to anticipate what our business environment would be like 10 years from now, based on which we would constantly challenge ourselves so that we can continue evolving.

The vision remains unchanged in our three year Medium-Term Management Plan "SMBC Group Next Stage," which commenced in April 2017 and will continue until March 2020. The key to making our vision a reality is the speedy implementation of the various initiatives while maintaining our unwavering commitment to quality. However, when operating in an environment of rapid structural change, sustainable growth cannot be realized without constant evolution and reorganization. Moreover, a wide range of our stakeholders have increasing expectations in relation to how our presence benefits society, for example, in the area of corporate social responsibility and our fiduciary duties as a financial institution. Instead of focusing on expanding our operations, our goal is to become "A top tier global financial group that delivers the highest quality in all aspects of our business." To this end, I have established the following four objectives: 1) Attain world-class profitability, efficiency, and productivity so that we can win the approval of our shareholders and their long-term support, 2) Address our customers' diverse business needs and be rated as a leader in our Seven Core Business Areas, 3) Become a vibrant organization that employees are excited to work for, and 4) Become an organization with a strong compliance culture that serves society by addressing its issues. Although it is no easy task to accomplish all these objectives, I believe it is possible by harnessing SMBC Group's on-the-ground capabilities, spirit of innovation, and speed.

For example, in terms of profitability, efficiency, and productivity, our high domestic loan-to-deposit spread, in comparison to that of our competitors, and our overhead ratio, which is low even by global standards, are reflections of our strengths. Furthermore, although we have seen a fall in our ROE, we still produced an ROE of 8.8% for fiscal 2017 despite the prevailing negative interest rate environment and strengthening our capital base in response to tightening international financial regulations. As you can see, we secured an ROE that is very competitive with global standards by focusing on quality

improvement. Of course, we are not satisfied with this result. We will continue to improve the quality of our earnings and improve shareholder value by developing a business model that is not dependent on asset-based businesses and is capable of producing sustainable, stable earnings. In order to realize this goal, we must walk alongside our customers and understand their true needs so that we can provide optimal business solutions. The success of such an undertaking depends on the on-the-ground capabilities of each and every SMBC Group employee. In order to maximize our employees' on-the-ground capabilities, I believe we must reduce low productivity tasks and assign employees to creative, high value-added responsibilities. In other words, we need to increase the quality of our employees' tasks and responsibilities, and this is exactly what we mean by work style reform and job satisfaction reform. These reforms will improve employee motivation and promote professional growth, which will ultimately allow us to offer services which differentiate us from our competitors while also contributing to business growth and improved profitability.

In regards to the promotion of diversity, which I personally regard as being one of our key management strategies, we are actively working to create a framework that will allow female and non-Japanese employees to play a more active role at SMBC Group. For example, we reached our target of having 20% of our management positions occupied by female employees three years ahead of schedule, after which we proceeded with raising our target. I believe that working tirelessly towards the building of a vibrant organization is one of my main missions.

Furthermore, we must balance the pursuit of economic growth and the addressing of social issues if we are to fulfill our corporate social responsibility. Through business related initiatives, SMBC Group will support 10 of the Sustainable Development Goals adopted by the United Nations in 2015. For example, with the aim of addressing climate change and human rights related issues, we are tightening our credit policy covering development projects which place a significant strain on the environment, such as coal-fired power plants, or projects that could violate human rights. I also believe that it is vital that we carry out our responsibilities with an increased sensitivity to risk and a keen awareness of compliance related issues amid the ever-increasing complexity of business risks, such as cyberattacks and money laundering.

The Spirit of "SMBC Group Next Stage" and Fiscal 2017 Results

As the name of our Medium-Term Management Plan "SMBC Group Next Stage" indicates, the plan's goal is to propel SMBC Group to the next stage of development as a global financial group. We will realize this goal via the three core policies: Discipline, Focus, and Integration. These policies were also established based on our commitment to quality and speed. Under the Medium-Term Management Plan, our goal is to take our business capabilities to the next level. We will accomplish this by: 1) Making further progress in the reorganization of our business model, an initiative which was introduced under the previous plan, and 2) Uniting the collective strengths of SMBC Group and forging ahead with structural reforms under the new management framework comprised of group-wide business units and the CxO system. One year has passed since the Medium-Term Management Plan was introduced, and we are in the process of uniting the collective strengths of SMBC Group to realize the speedy implementation of the various initiatives established under the plan so that we may provide our customers with even higher quality financial products and services. As Group CEO, I am encouraged by the outcome of fiscal 2017 given that we made solid progress in terms of both financial results and the initiatives that we have implemented.

In the Medium-Term Management Plan we have defined our goal for Integration as "Integration across SMBC Group and globally to achieve sustainable growth." We are seeing the consistent application of a

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Diversity

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Initiatives for
Accomplishing
Sustainable
Development Goals

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Medium-Term
Management Plan
"SMBC Group
Next Stage"

►  P28
Four Business Units

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Integration of
Master Brand

group-based perspective, and when we turn our attention to our four business units we can see that collaborations are increasing between group companies, domestic and overseas operations, and between the business units themselves. As we are a diversified financial services group made up of group companies that are leaders in their respective fields, I have consistently led SMBC Group under the belief that “The strengthening of group companies will lead to the strengthening of SMBC Group.” While this belief has not changed, in order for SMBC Group to realize sustainable growth under the rapidly changing business environment, organizational boundaries must not hamper our efforts to maximize SMBC Group’s potential by providing a broad range of financial services through the seamless utilization of SMBC Group companies’ diverse capabilities and expertise. It was also based on this understanding that we designated SMBC as the new master brand for our financial group in March. Our intention is to enhance the quality of services we provide customers by further accelerating group-based management as the new group-based management framework becomes embedded in our business operations.

Initiatives related to Discipline and Focus are also steadily progressing. For Discipline, we have been transforming our business/asset portfolio, for example, turning regional bank subsidiaries into equity-method affiliates and reorganizing our joint leasing partnership, so that we may improve capital and asset efficiencies given tightening international financial regulations. To improve cost efficiency, SMBC led efforts to automate headquarter operations using Robotic Process Automation, and SMBC Group succeeded in achieving operational volume reductions of 1.1 million hours, the workload equivalent to that of 550 employees. We have also merged our securities subsidiaries. Consequently, of the ¥50 billion cost reduction target established under the Medium-Term Management Plan, we have already accomplished, or are on track to accomplish, cost reductions of ¥26 billion.

Initiatives for Fiscal 2018 and New Challenges

We will continue to focus on quality and speed in fiscal 2018. Our management policy for the year is “Accelerate the Medium-Term Management Plan.” While we have not made any changes to our key policies, we have positioned fiscal 2018 as the year in which we will increase the certainty of achieving the final targets of the Medium-Term Management Plan by producing concrete results via the accelerated implementation of our strategies and initiatives, while steadily strengthening the competitiveness of our core businesses to realize sustainable growth. To this end, we will focus on three key challenges.

First, we will accelerate the improvement of capital, asset, and cost efficiencies.

For SMBC Group to realize sustainable growth in the ongoing challenging business environment, our business operations must place an even greater focus on capital, asset, and cost efficiencies. In fiscal 2018, we will continue to ensure that our business operations prioritize profitability, and conduct an in-depth review of our expense structure to further enhance our traditional strengths of profitability and efficiency.

Specifically, from the perspective of improving capital and asset efficiencies, with international financial regulations continuing to tighten, we will proactively engage in efforts to grow our Origination & Distribution business, reduce strategic shareholdings, and improve the profitability of existing operations by strengthening non-interest income generating businesses. For example, we will address narrowing loan spreads, an issue in the Wholesale Business Unit, via the full-scale introduction of a performance evaluation framework in our front offices that incorporates profitability improvement, in addition to improving asset efficiency by strengthening our non-interest income generating business, such as securities and FX. In terms of improving cost efficiency, in fiscal 2017 we converted 103 SMBC retail banking branches to next-generation branches, an initiative which we will accelerate so that all 430 targeted branches

can be successfully converted within the three year timeframe. Digitalization initiatives, such as going paperless, have not only improved the efficiency of operations, but also enhanced consulting services by improving customer convenience and increasing meeting spaces for client discussions regarding topics such as wealth management. Customer feedback has been positive at retail branches that have transitioned to the next-generation structure.

In addition, we will focus on “Honing our strengths and advantages so that we can realize medium- to long-term growth.”

In the Medium-Term Management Plan, we have established the Seven Core Business Areas under the core policy of Focus. We will continue to strategically allocate management resources to these business areas to build robust competitive advantages.

By accelerating bank-securities integration to strengthen our wealth management business and our business with high net-worth individuals while leveraging the strengths of SMBC Group, which includes one of the leading credit card companies in Japan, to provide customers with safe, secure, and convenient services we will achieve our goal “Hold the number one retail banking franchise in Japan.” In order to further build upon our advantages in the domestic SME sector, we will make full use of SMBC Group’s resources to provide multifaceted business solutions that address customer issues and concerns, such as business succession and growth capital needs.

We will also increase our presence in business conducted with large corporate customers, both in and outside of Japan, by providing sophisticated business solutions through cross-entity collaborations; for example, bank-securities and Wholesale Business Unit-International Business Unit collaborations. Furthermore, we remain committed to working toward our goal “Accelerate our ‘Asia-centric’ strategy” so that we may realize our vision. For example, in Indonesia where we are implementing our Multi-franchise Strategy, we are proceeding with the merger of BTPN and PT Bank Sumitomo Mitsui Indonesia. In Sales & Trading, we have been awarded derivative and other transactions tied to our lending business as a result of bank-securities collaboration, which we intend to continue to expand.


It is also important that we create new strengths and advantages as SMBC Group. While we have already established top tier positions in a number of businesses, such as aircraft and railcar leasing, we will accelerate cross-entity and cross-business unit initiatives targeting high potential business segments where the application of a group-wide approach will have a significant impact, so that we can differentiate ourselves from, or match our competitors in such areas. One such example is the merger of the two SMBC Group asset management companies that was announced in May.

Last, but certainly not least, we will focus on our digitalization related initiatives.

In the Medium-Term Management Plan, we identified the goals of promoting digitalization as: “Enhancing the customer convenience,” “Generating new businesses,” “Improving productivity and efficiency,” and “Upgrading management infrastructure.” Simply put, we will carry out digitalization related initiatives by incorporating technological advances into all aspects of our business.

The financial industry in particular is seeing the introduction of many innovative services and the entry of numerous new players on a global scale. The industry is changing, in terms of both quality and speed, at a completely new level. While the utilization of data offers opportunities to expand our business and our customer base, there is a growing need to ensure information security. At SMBC Group, digitalization will be swiftly carried out at all group companies, at times in collaboration with third parties, without being bound by existing frameworks or mindsets.

Let’s take the facilitation of payments, a core function of the financial sector, as an example. A diverse range of payment methods ranging from credit cards to e-money, in addition to various platforms that

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Transformation into
Next-Generation
Branches

►  P38
Promotion of
Cashless Payments

process payment information, exist in Japan. Looking back, we can see that SMBC Group has contributed to the development of the cashless payments market in Japan in a number of ways, for example through our credit card business. We are harnessing our track record and strengths in this area to provide a new cashless payment experience to end-users with the convenience of choosing between various payment methods (i.e. credit cards and e-money) and interfaces (i.e. non-contact IC and QR code), as well as offering a safe and secure experience with good value. At the same time, we will offer business operators a new business solution by building a comprehensive next-generation payment platform. Through such actions, we will take the initiative in promoting cashless transactions in Japan to become a leader in the cashless payments sector.

Capital Policy

We updated our capital policy this May. Previously, we had prioritized the strengthening of our capital base to address tougher international financial regulations, but with the finalization of the Basel III reforms last December regulatory uncertainties that had been affecting various parts of our business have lifted, with the impact of the reforms finally becoming clear. As we are making faster than expected progress towards attaining our target CET1 ratio of 10%, I believe we are now in a good position to begin focusing on enhancing shareholder returns and investing for growth. Our new capital policy was announced following extensive discussions, including at the Board of Directors level, based on this understanding.

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Capital Policy

Our basic capital policy is to achieve a healthy balance among securing financial soundness, enhancing shareholder returns, and investing for growth. Furthermore, while dividends will be our principal approach to shareholder returns, we will also proceed with share buybacks on a flexible basis assuming our financial soundness is maintained. With regard to dividends, we have been following a progressive dividend policy with the aim of achieving a dividend payout ratio of 40%. A progressive dividend policy means that we will not reduce dividends, but rather that we will at least maintain, if not increase, the payments. Going forward, we will maintain a progressive dividend policy, taking into account sustained earnings growth,



targeting a dividend payout ratio of 40%. We will focus our efforts so that we can realize this payout ratio during the next Medium-Term Management Plan, which will commence in April 2020. We also plan to conduct flexible share buybacks, assuming our financial soundness is maintained, based on factors such as our capital position, earnings trends, share price, growth investment opportunities, and improvements in capital efficiency.

Taking into consideration these policies, we fixed our dividend per share for fiscal 2017 at ¥170, a year-on-year increase of ¥20 and ¥10 more than our initial forecast, as consolidated net income was significantly higher than our initial target. We will maintain the fiscal 2017 dividend level of ¥170 per share for fiscal 2018, despite an expected decline in profit. We also carried out a share buyback totaling ¥70 billion based on the fact that we are making good progress on reaching our CET1 ratio of 10% by the end of fiscal 2018, our consolidated net income for fiscal 2017 exceeded our initial forecast by more than ¥100 billion, and the expectation that robust business performance will continue in fiscal 2018. All the shares that have been repurchased are to be cancelled.

Conclusion

Japanese companies, including those in the financial industry, are facing a period of dynamic change. In a vast number of industries, traditional barriers and boundaries are becoming meaningless amid changes in industry structure and technological advances. Businesses are faced with a new reality that the landscape of their respective industries may be completely rewritten in only a few short years. In addition, we must pay close attention to changes in the business environment and increased market volatility stemming from heightened geopolitical risk and changes in capital flows, and respond to such factors with ever increasing speed.

Despite such a challenging business environment, SMBC Group will contribute to the growth and development of our customers, the economy, and society while realizing the sustainable growth of our business. We will accomplish this by tirelessly carrying out reforms to succeed amid changing business conditions, maintaining our unwavering commitment to quality, and implementing initiatives with an urgent sense of speed, all while remaining true to our core corporate value “Customer First.”

As Group CEO, I believe my mission is to transform SMBC Group into “A top tier global financial group that delivers the highest quality in all aspects of our business.” This transformation will be realized by attaining the sustainable growth of our corporate value as a result of each and every SMBC Group employee bringing together their diverse expertise and engaging in their duties with a high sense of motivation to address the various challenges society is facing, provide our customers with optimal business solutions, and increase our profitability and efficiency by surpassing the targets established under our Medium-term Management Plan.

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

July 2018

Takeshi Kunibe

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



Core Policies of Medium-Term Management Plan (fiscal 2017–2019)



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

- 1 Discipline** Disciplined business management
 - Transformation of business/asset portfolio
 - Improving productivity and efficiency
- 2 Focus** Focus on our strengths to generate growth
 - Focus on Seven Core Business Areas
- 3 Integration** Integration across the Group and globally to achieve sustainable growth
 - Introduced CxO system and Group-wide business units
 - Digitalization
 - ESG

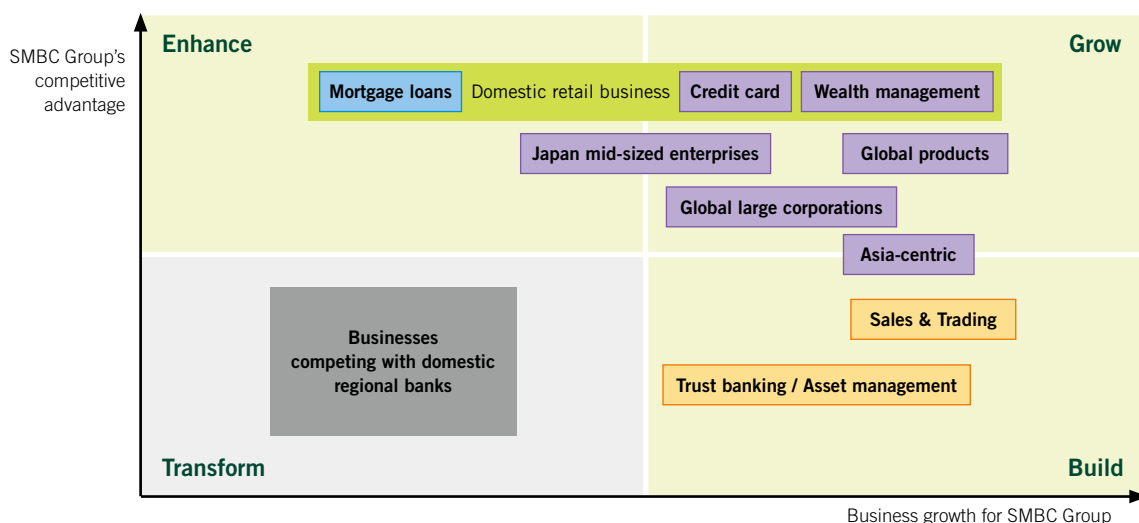
Fiscal 2019 Financial Targets

Capital Efficiency	ROE	7~8%	Maintain at least 7% notwithstanding accumulation of capital
Cost Efficiency	OHR	1% reduction compared with FY3/17	Reduce to around 60% at the earliest opportunity in or after fiscal 2020 (fiscal 2018: 62.1%)
Financial Soundness	CET1 ratio ^{1,2}	10%	Maintain capital in line with the tightening of regulations (fiscal 2018: 8.3%)

*1 Calculated with RWA inflated by 25% compared to the current Basel III fully-loaded basis due to the final impact of Basel III reforms

*2 CET1: excludes net unrealized gains on other securities RWA: excludes RWA associated with net unrealized gains on stocks

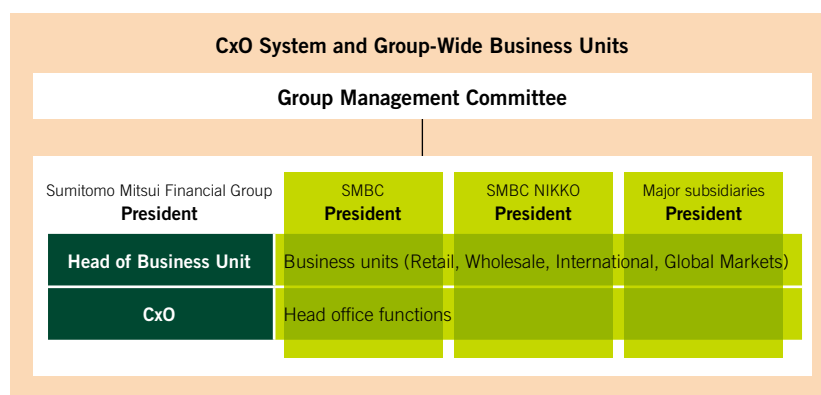
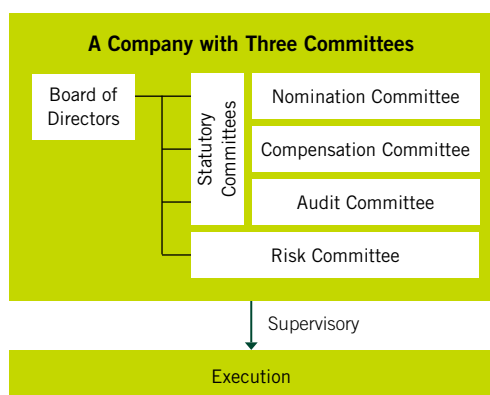
Business Portfolio Transformation



Seven Core Business Areas

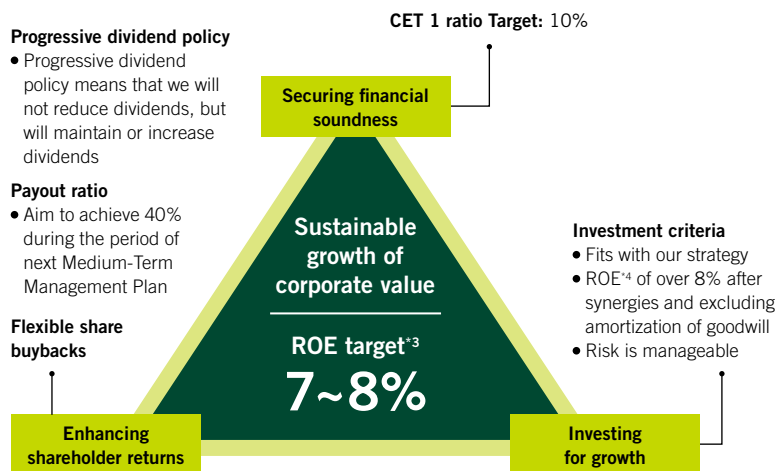
Concept		Strategic Focus	
Enhance Enhance business base in domestic market	1	Hold the number one retail banking franchise in Japan	Digitalization
	2	Build on our lead position in the Japanese medium-sized enterprise market	
	3	Increase market share in Corporate & Investment Banking in key global markets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

Corporate Governance Framework



Basic Capital Policy (announced in May 2018)

- Achieve a healthy balance among securing financial soundness, enhancing shareholder returns, and investing for growth
- Dividends will be our principal approach to shareholder returns. In addition, we will proceed with share buybacks on a flexible basis assuming our financial soundness is maintained
 - We aim to pay progressive dividends supported by our sustainable earnings growth, and achieve a payout ratio of 40% during the period of the next medium-term management plan
 - We will execute share buybacks as and when appropriate taking into account the factors such as our capital position, earnings trends, stock price, growth investment opportunities and an improvement of capital efficiency



*3 On a stockholders' equity basis

*4 Managerial accounting basis with RWA calculated based on the finalization of Basel III reforms