Message from the Group CFO

Jun Ohta
Group CFO
Director Deputy President and Executive Officer

Review of Fiscal 2017

In fiscal 2017, consolidated gross profit increased ¥60.3 billion year-on-year, to ¥2,981.1 billion as the result of strong investment product sales in the Retail Business Unit and the continued growth of our credit card and overseas businesses.

We booked general and administrative expenses of ¥1,816.2 billion; a level similar to that of fiscal 2016 due to group-based initiatives to strengthen cost control. Furthermore, consolidated net business profit was up ¥71 billion year-on-year, to ¥1,203.8 billion due in part to an increase in equity in gains of affiliates.

Total credit cost improved ¥70.2 billion year-on-year, to ¥94.2 billion mainly as a result of the reversal of credit costs from provisions made in the past for large borrowers at SMBC. Furthermore, gains on stocks increased ¥63.9 billion year-on-year, to ¥118.9 billion. We were able to realize an increase in ordinary profit of ¥158.3 billion year-on-year, to ¥1,164.1 billion even though approximately ¥50 billion was booked as provisions for losses on interest repayments at our consumer finance subsidiaries.

Profit attributable to owners of parent was ¥734.4 billion, a year-on-year increase of ¥27.8 billion, owing to a rise in extraordinary losses due to factors such as the advance booking of costs related to the reorganization of our retail branches and an increase in income taxes due to the absence of last year's tax benefits derived from the implementation of the consolidated corporate tax system.

For a detailed review of our business results and financials, please refer to page 80.

Fiscal 2018 Earnings Targets

Our fiscal 2018 targets are ¥1,155 billion, a year-on-year decrease of ¥48.8 billion, for consolidated net business profit and ¥700 billion, a year-on-year decrease of ¥34.4 billion, for profit attributable to owners of parent. Our target for profit attributable to owners of parent is based on our assumption that total credit cost will increase and gains on stocks will decrease.

Although the challenging business environment, such as the Bank of Japan's negative interest rate policy, is expected to continue, we forecast that consolidated net business profit will remain at levels similar to that of fiscal 2017 once we exclude the impact of turning our regional bank subsidiaries into equity-method affiliates and the reorganization of the joint leasing partnership. The target for profit attributable to owners of parent, excluding one-off positive factors resulting from the reorganizations, is in the mid-¥600 billion range. This exceeds our original target set at the start of the Medium-Term Management Plan. We will steadily improve our underlying earnings capability by producing concrete results based on the accelerated implementation of the Medium-Term Management Plan's strategies and initiatives.

Progress of the Financial Targets in our Medium-Term Management Plan "SMBC Group Next Stage"

We are focusing on improving the capital, asset, and cost efficiencies of our operations to become "A top tier global financial group that delivers the highest quality in all aspects of our business." To realize this vision, we have established financial targets for ROE, overhead ratio, and CET1 ratio in the Medium-Term Management Plan.

In fiscal 2017 our ROE was 8.8% and our overhead ratio was 60.9%, both already reaching the target. This was due to good top-line and bottom-line profit figures, as well as the disciplined control of cost. We were able to realize a CET1 ratio of 9.5% in fiscal 2017, even when factoring in the increased risk-weighted assets due to the tightening of international financial regulations. By controlling risk-weighted assets, including by way of inorganic measures and accumulating retained earnings, we expect to be able to achieve our CET1 ratio target of 10% by the end of fiscal 2018, one year ahead of schedule.

		Fiscal 2016	Fiscal 2017	Fiscal 2019 Target	
Capital Efficiency	ROE	7.8%*1	8.8%	7–8%	Maintain at least 7% notwithstanding accumulation of capital
Cost Efficiency	OHR	62.1%	60.9%	1% reduction compared with FY3/17	Reduce to around 60% at the earliest opportunity in or after fiscal 2020
Financial Soundness	CET1 ratio*2,3	8.3%	9.5%	10%	Maintain capital in line with raised requirement

*1 Excluding special factors, such as the effects of implementing the consolidated corporate-tax system
*2 Calculated with RWA inflated by 25% compared to the current Basel III fully-loaded basis due to the final impact of Basel III reforms
*3 CET1: excludes net unrealized gains on other securities / RWA: excludes RWA associated with net unrealized gains on stocks

Return on Equity

In fiscal 2017, each business unit prioritized profitability and efficiency in its business operations as business unit-based ROE management was introduced as part of the group-wide business unit framework. As a result, profit attributable to owners of parent far exceeded our initial forecast, and we were able to achieve an ROE of 8.8%, which exceeded the target established in the Medium-Term Management Plan.

Through the Medium-Term Management Plan, we aim to offset downward pressure on earnings, such as rising foreign currency funding costs and narrowing loan spreads in Japan owing to the ongoing negative interest rate environment and intensifying competition, by focusing on the Seven Core Strategic Business Areas and reforming our cost-structure. Through such efforts, we will realize steady growth of bottom-line profit and consistently secure an ROE of 7-8%, with the minimum being 7%. However, this does not mean that we are satisfied at this level. We will work to realize the sustained growth of our ROE by not only pursuing upside opportunities as the business environment improves, including when the Bank of Japan discontinues its negative interest rate policy, but also by striking a healthy balance between enhancing shareholder returns and investing for growth, assuming our financial soundness is maintained.

Overhead Ratio

Due to top-line growth and maintaining expenses at levels similar to that of fiscal 2016 through the disciplined management of operations, overhead ratio in fiscal 2017 was 60.9%, reaching our Medium-Term Management Plan target.

Over the three years in the current Medium-Term Management Plan, we are targeting a cost reduction of ¥50 billion by implementing three initiatives: "Business reform to improve efficiency," "Retail branch reorganization," and "Reorganization of group companies." In the first year, we were able to materialize ¥26 billion out of the ¥50 billion cost reduction target. For example, in terms of improving efficiency by introducing Robotic Process Automation (RPA), we have completed the automation of approximately 1.1 million hours of operations (equivalent to an annual workload of 550 employees) against our final target of automating 3.0 million hours of operations (equivalent to an annual workload of

1,500 employees). In terms of retail branch reorganization, we have transformed 103 retail branches into next-generation branches, and we have completed the centralization of the back-office operations of 134 branches. Our goal is to transform all 430 SMBC retail branches into next-generation branches during the current Medium-Term Management Plan. In addition, SMBC Nikko Securities Inc. and SMBC Friend Securities Co., Ltd. merged in January 2018, and I can say with confidence that we are on track to reach our cost reduction targets through the consolidation of duplicated functions. Furthermore, we succeeded in reducing operations equivalent to the annual workload of approximately 1,000 employees in fiscal 2017, versus the three-year target of reducing operations equivalent to the annual workload of 4,000 employees. This was the result of efforts to utilize RPA and other new technologies to improve the efficiency of operations undertaken at head office departments, in addition to centralizing and sharing operations that were duplicated at SMBC Group companies.

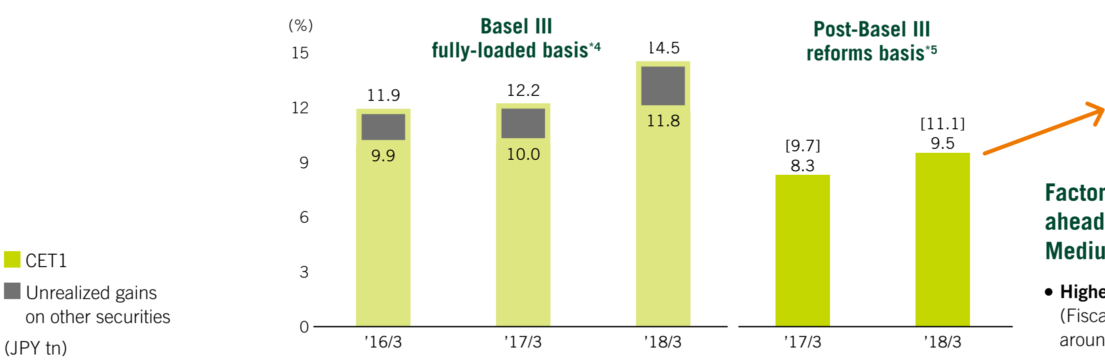
Our goal is to establish a downward trend in overhead ratio during the current Medium-Term Management Plan, and to realize a ratio of around 60% at the earliest possible date, either during or after fiscal 2020. We will continue to devote our efforts to ensuring the disciplined management of our expenses.

Common Equity Tier 1 Capital Ratio (CET1 Ratio)

The Basel III reforms were finalized in December 2017 with a capital floor of 72.5%, a level which exceeded our original assumption of 70%. However, with the reforms easing in areas including the CVA risk framework and operational risk, the final impact on our risk-weighted assets (RWA) was in line with our expectations at the start of the Medium-Term Management Plan.

We expect to attain our target CET1 ratio of 10% on a post-Basel III reforms basis by the end of fiscal 2018, one year earlier than the Medium-Term Management Plan target. This is due to profit attributable to owners of parent for fiscal 2017 and the fiscal 2018 target exceeding our assumptions in the Medium-Term Management Plan. In addition, the implementation of various measures to control RWA, including inorganic measures such as turning our regional bank subsidiaries into equity-method affiliates and reorganizing our joint leasing partnership, also played a key role in raising the CET1 ratio.

CET1 ratio



Expect to reach our target of 10% by Mar. 19

Factors to reach the target ahead of the schedule of the Medium-Term Management Plan

- **Higher profits than expected**
  (Fiscal 2017, Fiscal 2018 target)
  around +20bp
- **Regional banks subsidiaries turned into equity method affiliates**
  around +30bp Fiscal 2017
- **SMFL turned into an equity method affiliate**
  around +40bp Schedule Nov. 2018

(JPY tn)	'16/3	'17/3	'18/3	'17/3	'18/3
Risk-weighted assets (RWA) (Excludes RWA associated with net unrealized gains on stocks)	65.9	70.6	63.5	88.8 (85.6)	82.4 (78.7)
CET1 capital (o/w net unrealized gains on other securities)	7.90 (1.35)	8.68 (1.54)	9.22 (1.69)	8.68 (1.54)	9.22 (1.69)

*4 Based on the definition applicable for Mar.19
*5 Calculated with RWA inflated by 25% compared to the current Basel III fully-loaded basis. Figures in [ ] are calculated with CET1 including net unrealized gains on other securities and RWA including RWA associated with net unrealized gains on stocks

Capital Policy

Basic Policy

As mentioned in the “Message from the Group CEO,” we updated our capital policy in May 2018 following the finalization of the Basel III reforms. Our basic capital policy is to achieve a healthy balance in terms of securing financial soundness, enhancing shareholder returns, and investing for growth. We do not intend to accumulate excessive levels of capital as our goal is to realize sustained ROE improvement. We will also continue to take a disciplined approach when investing for growth, making investment decisions based on the following criteria: 1) The investment fits with our strategy, 2) We can expect an ROE of 8% or more after synergies and excluding amortization of goodwill, and 3) The risk is manageable. In other words, when making investment decisions we will be focusing on whether the investment can contribute to sustained ROE improvement.

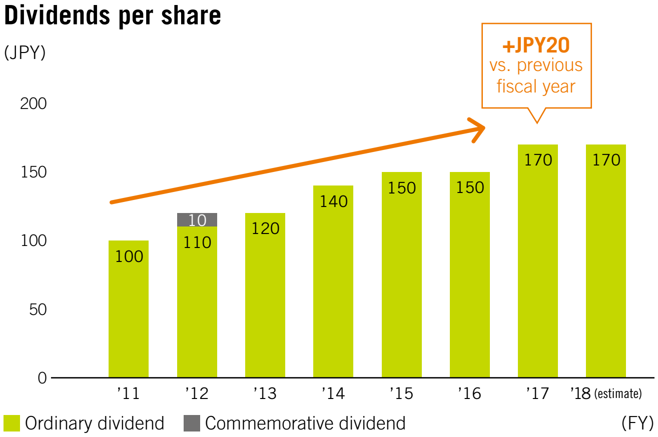
While dividends will be our principal approach to enhancing shareholder returns, we will also proceed with share buybacks on a flexible basis, assuming financial soundness is maintained. In regards to our dividends, we will maintain a progressive dividend policy*6, based on the premise that sustained profit growth is realized. Our goal is to achieve a dividend payout ratio of 40% during the next Medium-Term Management Plan, which starts in April 2020. We also plan to engage in flexible share buybacks when, for example, net income exceeds our target due to one-off factors. This is based on the assumption that our financial soundness is maintained, and we would take into careful consideration factors such as our capital position, earnings trends, share price, growth investment opportunities, and improvement in capital efficiency.

*6 Progressive dividend policy means that we will not reduce dividends, but will maintain or increase dividends.

Reduction of Strategic Shareholdings

Our policy regarding strategic shareholdings states that: “In principle, we do not hold the shares of other listed companies where ‘the rationale’ to hold those shares cannot be recognized. This policy is in place in order to help maintain our financial soundness, taking into consideration the standards of globally operating financial institutions and our proactive response to global regulation.” We determine “the rationale to hold” with comprehensive considerations based on: 1) Profitability - through an appropriate assessment and understanding of relevant factors, such as associated risks, costs, and returns of the holding; 2) The objectives of the strategic shareholding, and 3) Other relevant factors.

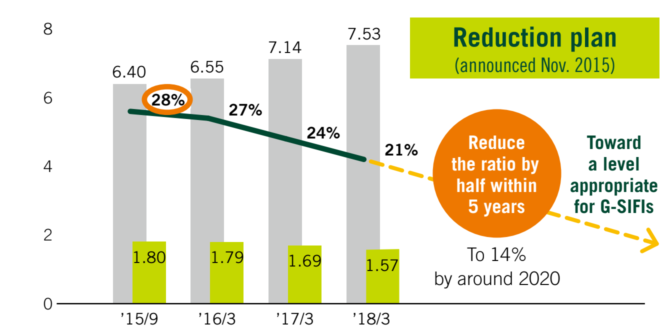
Dividends per share



Dividend payout ratio*7	26.8%	21.3%	20.3%	26.2%	32.7%	29.9%	32.7%	34.3%*8
					(Ref) Total payout ratio		42.2%	

*7 Consolidated payout ratio
*8 Calculated based on fiscal 2018 consolidated net income forecast (¥700 billion) and dividend forecast (¥170 per share) and on the total number of issued shares on March 31, 2018

Strategic shareholdings and reduction plan (Consolidated basis)



CET1 (Basel III fully-loaded basis, excluding net unrealized gains on other securities)
Book value of domestic listed stocks within other securities
Ratio of stocks to CET1 capital

*9 Consolidated basis: Book value of domestic listed stocks/CET1 capital (Basel III fully-loaded basis, excluding net unrealized gains on other securities)

Reduction results (fiscal 2017)	approx. JPY 115 bn	
Reduction results (Total reduction from Sep. 2015– Mar. 2018)	approx. JPY 230 bn	approx. JPY 345 bn
Consent of sales from clients outstanding (Mar. 2018)	approx. JPY 115 bn	

Through this policy, with the aim of mitigating the impact of share price fluctuations on our financial base, we are working to halve our "book value of domestic listed stock holdings to CET1 ratio" from the 2015 September-end figure of 28% to 14% by 2020. This is equivalent to a reduction of approximately ¥500 billion over five years.

We realized a reduction of strategic shareholdings worth approximately ¥115 billion in fiscal 2017, for a total reduction of approximately ¥230 billion since 2015 September-end. Furthermore, we have obtained our clients' consent to sell a further ¥115 billion that has yet to be executed. Thus, as of the end of fiscal 2017, we have practically realized a total reduction of approximately ¥345 billion.

Our primary focus will be to realize our current goals regarding our strategic shareholdings while at the same time firmly keeping in mind Japan's Corporate Governance Code, which was revised in June 2018.

Tax Compliance and Tax Cost Management

Strengthening tax compliance and tax cost management are becoming ever more important as our business expands both globally and across the group. We implemented the consolidated corporate-tax system in fiscal 2017, and the submission of reports to the tax authorities concerning the BEPS Project[*10] has become compulsory in Japan. Against this backdrop, we introduced our group tax policy in December 2017, and we established the Tax Planning Department as part of our Financial Accounting Department in April 2018 with the aim of further strengthening our tax compliance and tax cost management frameworks. We will meet our corporate social responsibilities by continuing to fulfill our obligation to make tax payments and implementing appropriate tax cost management initiatives while working to improve our corporate value.

*10 Action Plan on Base Erosion and Profit Shifting ("BEPS") published by the Organization for Economic Co-operation and Development ("OECD") in order to prevent exploiting of gaps and mismatches in tax rules and artificial shifting of profits to low or no-tax locations

Dialogue with our Shareholders and Investors

A key responsibility of a CFO is to address the interests and concerns of shareholders and investors by engaging in constructive dialogue with them. In fiscal 2017, I was fortunate to have many opportunities to interact with investors and analysts. These opportunities ranged from investor meetings and the annual Ordinary General Meeting of Shareholders, to more recent initiatives, such as the SMBC Group IR Day at which our business unit heads explain their strategies, and the IR meetings with our outside directors. We have incorporated the feedback we received on such occasions into our business operations, including the recent discussion of our capital policy. We are also working to ensure our disclosures are clear and easy to understand.

I look forward to receiving your ongoing support, as I remain firmly committed to continuing my constructive dialogue with our shareholders and investors.

Jun Ohta
Group CFO
Director Deputy President and Executive Officer