

# Retail Business Unit



Senior Managing Executive Officer  
Head of Retail Business Unit  
**Naoki Tamura**

The top-class companies in banking, securities, credit card, and consumer finance industries that comprise the Retail Business Unit are engaged in a concerted group-wide effort to address the financial needs of all individual customers, striving to make SMBC Group the most trusted and No. 1 comprehensive financial service institution.

In its primary markets, the Retail Business Unit boasts the No. 1 operating foundation in Japan, serving 43 million customers with 50,000 employees. Although the total number of households' financial assets in Japan has surpassed ¥1,800 trillion, the shift from savings to asset building has remained at low level. Therefore, we assume that there still remains a large untapped market. Meanwhile, cashless payments are less prevalent in Japan than in other major countries, so we also assume there is another substantial market to tap. Despite the consistently slow growth of the overall Japanese market, the Retail Business Unit is serving one of the few markets in which growth can be anticipated. To better serve this market, we are implementing sophisticated, leading-edge business model reforms with the aim of achieving a No. 1 position backed by quality. These reforms include the transition to a customer-oriented wealth management business, cashless payment strategies that respond to the digitalization trend, and branch reorganizations targeting increased customer convenience coupled with improved cost structures.

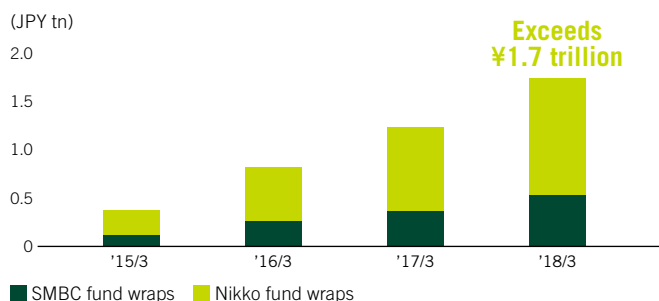
## Review of Fiscal 2017

In fiscal 2017, the Retail Business Unit recorded impressive performance in sales of investment products and in credit card services. The Unit also focused on group-wide cost control, achieving reductions in the overhead ratio. As a result, gross profit increased by ¥34.2 billion year-on-year, to ¥1,311.5 billion, and net business profit increased by ¥21.4 billion, to ¥299.5 billion, while return on equity (ROE) reached 7.5%. In our wealth management business, we promptly moved forward with the transition to a customer-oriented approach that entails proposing stable management based on medium- to long-term diversified investment. We thus saw a steady increase in the balance of stock-based assets, lending strength to our base earnings capacity which enables us to become resilient to market fluctuations. In addition, we moved forward with retail branch reorganizations as part of cost structure reforms, completing the transformation of 103 branches into next-generation branches. In this manner, we are smoothly progressing customer-convenience enhancement and cost reduction.

	Fiscal 2017	Increase (decrease) <sup>1</sup>
Gross profit (JPY bn)	1,311.5	+34.2
Expenses (JPY bn)	(1,027.5)	(16.1)
(Overhead ratio)	78.3%	(0.8)%
<b>Net business profit (JPY bn)</b>	<b>299.5</b>	<b>+21.4</b>
<b>ROE<sup>2</sup></b>	<b>7.5%</b>	<b>—</b>
<b>RwA<sup>3</sup> (JPY tn)</b>	<b>13.8</b>	<b>—</b>

<sup>1</sup> Figures are after adjustments for interest rate and exchange rate impacts. <sup>2</sup> Figure is on a managerial accounting basis with RWA calculated assuming Basel III reforms are finalized and exclude the impact from the provision for losses on interest repayments and the cost from branch reorganizations. <sup>3</sup> Figures are on a Basel III transitional basis.

### Balance of Fund Wraps (SMBC and SMBC NIKKO)



### Progress of Branch Reorganization

	Fiscal 2017	Fiscal 2018 Targets	...	Fiscal 2021 Targets
Reduction of clerical staff by improving efficiency (JPY bn)	(0.7)	(2.3)		(10.0)
Reduction of rent due to smaller branch floor space, etc. (JPY bn)	(1.6)	(5.2)		(10.0)
Ripple effects on operating expenses (JPY bn)	(0.8)	(4.1)		(10.0)
<b>Total (JPY bn)</b>	<b>(3.1)</b>	<b>(11.6)</b>		<b>(30.0)</b>

## Priority Strategies

### ■ Wealth Management Business

In the wealth management business, we are promoting medium- to long-term diversified investment proposals while moving forward with a concerted Group effort to approach and increase transactions with high-net-worth individuals. The sales proportion of products that contribute to diversified investment, such as fund wraps and balanced funds at SMBC, exceeded 60% in fiscal 2017, demonstrating the steady penetration of our customer-oriented businesses. We will continue these initiatives in fiscal 2018, and seek to fully realize a stock-based wealth management business model. At the same time, we will address wide-ranging needs of with high-net-worth individuals by stepping up solutions proposed by SMBC Nikko Securities and enhancing the inheritance and succession consulting services of SMBC. By doing so, we will take steps to approach and increase transactions with these high-net-worth individuals.

### ■ Cashless Payment and Consumer Finance Businesses

In the cashless payment business, we launched in fiscal 2017 a first-ever product in Japan, an integrated card with debit and credit functions that is compatible with two different forms of contactless IC. Meanwhile, we worked to accelerate initiatives for addressing healthy financing needs in the consumer finance business with the aim of further protecting users. These initiatives included curtailing advertisements and implementing more rigorous credit standards at SMBC.

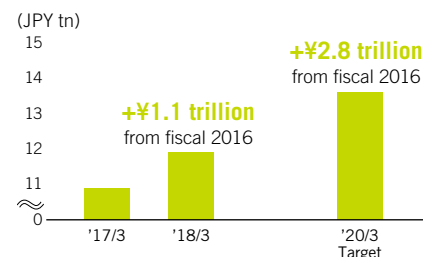
In fiscal 2018, we will continue to strengthen our cashless payment and consumer finance businesses from a customer-oriented perspective.

### ■ Branch Reorganizations as Part of Cost Structure Reforms

At branches, we are promoting three reforms, “changing the way we offer services to our customers,” “changing the administration process,” and “changing the concept of branches.” These initiatives are aimed at improving customer convenience and reforming cost structures.

Reform efforts in fiscal 2017 included automatically adding “SMBC Direct” services to customer accounts, rather than requiring customers to apply as had previously been the case, as well as other changes to service provision methods through digitalization. These efforts contributed to large increases in usage numbers and rates for “SMBC Direct.” In fiscal 2018, we will seek to thoroughly promote digitalization in our operations with the aim of further improving customer convenience and reducing costs.

### Balance of Stock-Based Assets (SMBC and SMBC NIKKO)



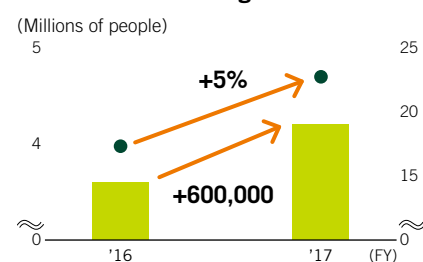
Note: Investment products that generate stock-based gains, such as investment trusts, fund wraps, and foreign currency deposits (market value basis)

### Integrated Card with Debit, Credit, and Contactless IC Payment Functions

First in Japan



### Number of “SMBC Direct” Users\*4 and Utilization Rate of Digital Channels\*5



\*4 Number of customers who have logged in SMBC Direct at least once every six months \*5 Clients using digital channels / (clients using physical branches + clients using digital channels)

## Initiatives for Accomplishing Sustainable Development Goals

Through digitalization initiatives, SMBC Group is promoting cashless and paperless transactions, which is helping cope with global warming.

Meanwhile, we are contributing to increased financial literacy in our wealth management business by providing medium- to long-term diversified investment proposals to a wide range of customers, including first-time investors. Also in this business, we have introduced products that entail investment in technological progress and in emerging countries.

➔ For more information on SMBC Group's initiatives for contributing to the accomplishment of the United Nations Sustainable Development Goals, please refer to page 59.

## SUSTAINABLE DEVELOPMENT GOALS

17 GOALS TO TRANSFORM OUR WORLD

- Cashless, transactions without bankbook
- Electronic contract by tablets
- Improvement of financial literacy
- ESG investment trusts

