

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, 2018

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)

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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, 2018, the following shares of capital stock were outstanding: 1,414,443,390 shares of common stock (including 3,884,968 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<sup>†</sup> provided pursuant to Section 13(a) of the Exchange Act. ☐

<sup>†</sup> 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. “SMBC” refers to Sumitomo Mitsui Banking Corporation, which is one of our commercial banking subsidiaries, or to Sumitomo Mitsui Banking Corporation and its subsidiaries taken as a whole, depending on the context. References to the “SMBC Group” are to us and our subsidiaries and affiliates taken as a whole.

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, 2018, 2017, 2016, 2015 and 2014 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, |             |             |             |             |
|----------------------------------------------------------------------------------------|--------------------------------------------|-------------|-------------|-------------|-------------|
|                                                                                        | 2018                                       | 2017        | 2016        | 2015        | 2014        |
|                                                                                        | (In millions, except per share data)       |             |             |             |             |
| <b>Consolidated income statement data:</b>                                             |                                            |             |             |             |             |
| Interest income . . . . .                                                              | ¥ 2,144,070                                | ¥ 1,900,261 | ¥ 1,872,584 | ¥ 1,782,621 | ¥ 1,714,044 |
| Interest expense . . . . .                                                             | 733,969                                    | 502,338     | 431,101     | 371,107     | 320,511     |
| Net interest income . . . . .                                                          | 1,410,101                                  | 1,397,923   | 1,441,483   | 1,411,514   | 1,393,533   |
| Fee and commission income . . . . .                                                    | 1,131,364                                  | 1,066,412   | 1,031,680   | 1,002,766   | 1,003,169   |
| Fee and commission expense . . . . .                                                   | 178,867                                    | 181,573     | 131,381     | 129,253     | 127,959     |
| Net fee and commission income . . . . .                                                | 952,497                                    | 884,839     | 900,299     | 873,513     | 875,210     |
| Net trading income . . . . .                                                           | 270,464                                    | 183,963     | 462,682     | 127,759     | 135,218     |
| Net income (loss) from financial assets at fair value through profit or loss . . . . . | (667)                                      | 2,018       | 12,260      | 22,678      | 58,586      |
| Net investment income . . . . .                                                        | 424,097                                    | 305,327     | 375,229     | 371,064     | 332,265     |
| Other income . . . . .                                                                 | 755,855                                    | 573,825     | 496,273     | 525,905     | 429,541     |
| Total operating income . . . . .                                                       | 3,812,347                                  | 3,347,895   | 3,688,226   | 3,332,433   | 3,224,353   |
| Impairment charges (reversals) on financial assets . . . . .                           | 136,808                                    | 212,967     | 148,356     | 90,138      | (14,275)    |
| Net operating income . . . . .                                                         | 3,675,539                                  | 3,134,928   | 3,539,870   | 3,242,295   | 3,238,628   |
| General and administrative expenses . . . . .                                          | 1,813,121                                  | 1,752,135   | 1,706,263   | 1,621,897   | 1,522,990   |
| Other expenses . . . . .                                                               | 792,765                                    | 531,759     | 538,963     | 505,614     | 428,780     |
| Operating expenses . . . . .                                                           | 2,605,886                                  | 2,283,894   | 2,245,226   | 2,127,511   | 1,951,770   |
| Share of post-tax profit of associates and joint ventures . . . . .                    | 49,323                                     | 29,318      | 31,056      | 18,124      | 19,454      |
| Profit before tax . . . . .                                                            | 1,118,976                                  | 880,352     | 1,325,700   | 1,132,908   | 1,306,312   |
| Income tax expense . . . . .                                                           | 229,378                                    | 139,766     | 372,878     | 409,947     | 414,076     |
| Net profit . . . . .                                                                   | ¥ 889,598                                  | ¥ 740,586   | ¥ 952,822   | ¥ 722,961   | ¥ 892,236   |

|                                     | For the fiscal year ended and at March 31, |              |              |               |              |  |
|-------------------------------------|--------------------------------------------|--------------|--------------|---------------|--------------|--|
|                                     | 2018                                       | 2017         | 2016         | 2015          | 2014         |  |
|                                     | (In millions, except per share data)       |              |              |               |              |  |
| Profit attributable to:             |                                            |              |              |               |              |  |
| Shareholders of Sumitomo            |                                            |              |              |               |              |  |
| Mitsui Financial Group,             |                                            |              |              |               |              |  |
| Inc. . . . .                        | ¥ 759,998                                  | ¥ 627,870    | ¥ 843,920    | ¥ 614,070     | ¥ 766,388    |  |
| Non-controlling interests . . . . . | 119,878                                    | 104,787      | 106,129      | 108,891       | 125,848      |  |
| Other equity instruments            |                                            |              |              |               |              |  |
| holders . . . . .                   | 9,722                                      | 7,929        | 2,773        | —             | —            |  |
| Earnings per share:                 |                                            |              |              |               |              |  |
| Basic . . . . .                     | ¥ 539                                      | ¥ 459        | ¥ 617        | ¥ 449         | ¥ 561        |  |
| Diluted . . . . .                   | 538                                        | 458          | 617          | 449           | 561          |  |
| Weighted average number of          |                                            |              |              |               |              |  |
| common shares in issue              |                                            |              |              |               |              |  |
| (in thousands of shares) . . . . .  | 1,410,442                                  | 1,369,231    | 1,367,229    | 1,367,258     | 1,366,186    |  |
| Dividends per share in respect of   |                                            |              |              |               |              |  |
| each fiscal year:                   |                                            |              |              |               |              |  |
| Common stock . . . . .              | ¥ 155                                      | ¥ 150        | ¥ 155        | ¥ 125         | ¥ 125        |  |
|                                     | \$ 1.46                                    | \$ 1.34      | \$ 1.38      | \$ 1.04       | \$ 1.22      |  |
| <b>Consolidated statement of</b>    |                                            |              |              |               |              |  |
| <b>financial position data:</b>     |                                            |              |              |               |              |  |
| Total assets . . . . .              | ¥192,175,566                               | ¥191,150,981 | ¥180,172,652 | ¥ 179,181,466 | ¥158,631,041 |  |
| Loans and advances . . . . .        | 85,129,070                                 | 95,273,845   | 88,862,371   | 86,971,716    | 81,244,982   |  |
| Total liabilities . . . . .         | 179,679,767                                | 179,263,698  | 169,130,553  | 168,160,616   | 149,215,851  |  |
| Deposits . . . . .                  | 128,461,527                                | 130,295,290  | 125,940,797  | 115,833,980   | 108,370,494  |  |
| Borrowings . . . . .                | 10,652,481                                 | 12,245,943   | 9,914,129    | 11,217,052    | 8,463,363    |  |
| Debt securities in issue . .        | 10,569,117                                 | 11,165,623   | 10,829,612   | 11,051,431    | 8,769,094    |  |
| Total equity . . . . .              | 12,495,799                                 | 11,887,283   | 11,042,099   | 11,020,850    | 9,415,190    |  |
| Capital stock . . . . .             | 2,338,743                                  | 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 SMBC, expressed in Japanese yen per \$1.00.

|                                    | <u>High</u>             | <u>Low</u> | <u>Period end</u> | <u>Average<sup>(1)</sup></u> |
|------------------------------------|-------------------------|------------|-------------------|------------------------------|
|                                    | <u>(Yen per dollar)</u> |            |                   |                              |
| <b>Fiscal year ended March 31,</b> |                         |            |                   |                              |
| 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                       |
| 2018 .....                         | 114.38                  | 104.94     | 106.25            | 110.66                       |
| <b>Most recent six months:</b>     |                         |            |                   |                              |
| December .....                     | 113.65                  | 112.40     | 113.00            | 113.03                       |
| January .....                      | 113.16                  | 108.73     | 108.77            | 110.87                       |
| February .....                     | 109.87                  | 106.29     | 107.30            | 107.97                       |
| March .....                        | 106.97                  | 104.94     | 106.25            | 106.08                       |
| April .....                        | 109.37                  | 105.85     | 109.26            | 107.45                       |
| May .....                          | 111.10                  | 108.43     | 108.67            | 109.76                       |
| June (through June 15, 2018) ..... | 110.73                  | 108.96     | 110.73            | 109.99                       |

(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 SMBC for buying and selling spot dollars by telegraphic transfer against yen on June 15, 2018 was ¥110.73 = \$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 was scheduled to increase from 8% to 10% in April 2017. However, the increase in the consumption tax rate to 10% was postponed until October 2019. 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 exit from the European Union, 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 realized 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, 2018, approximately 88.4% 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, 2018 are described in "Item 5.A. Operating Results—Investment Securities."

The value of a listed equity security is measured at its market price. Declines in the Japanese stock markets or other global markets could result in realized and unrealized losses on the securities in our equity securities portfolio, adversely affecting our results of operations and financial condition.

Our regulatory capital position and that of SMBC 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 SMBC's capital positions, and limit SMBC's ability to make distributions to us.

We will further reduce our holdings of strategic equity investments 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, 2018, we had ¥8 trillion of Japanese government bonds classified as available-for-sale financial assets, which accounted for approximately 4.0% 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 SMBC's operations.***

We and SMBC 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 SMBC 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 1.875% 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, the requirements for additional capital, in the form of a capital surcharge above the Basel III minimum requirement, have been applied from 2016 to those financial institutions identified by the Financial Stability Board ("FSB") as Global Systemically Important Banks ("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 0.75% 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, 2018, 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 19.36 %, 16.69 % and 14.50 %, compared to the minimum required ratios of 10.655%, 8.655% and 7.155%, respectively. All the minimum required ratios stated above include the capital conservation buffer of 1.875%, the G-SIB capital surcharge of 0.75% and the countercyclical buffer of 0.03%.

Our and SMBC'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 SMBC:

- 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.

We and SMBC 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 SMBC's ability to maintain capital at the required levels may be adversely affected.

On December 7, 2017, the Group of Central Bank Governors and Heads of Supervision (the "GHOS") endorsed the outstanding Basel III regulatory reforms. The endorsed reforms include the following elements:

- a revised standardized approach for credit risk;
- revisions to the internal ratings-based approach for credit risk;
- revisions to the credit valuation adjustment framework;
- a revised standardized approach for operational risk;
- revisions to the measurement of the leverage ratio and a leverage ratio buffer for G-SIBs; and
- revision to the capital floor.

We will be subject to the final Basel III reform, as implemented in Japan.

If our or SMBC's capital ratios fall below required levels, the FSA may require us or SMBC 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 SMBC'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 affects 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. On December 15, 2017, the FSA issued a plan to repeal the FSA’s Financial Inspection Manual after April 1, 2019, and published a report outlining its new supervisory approaches. Our compliance with changes in the FSA’s inspection process under the new supervisory approaches 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 adverse 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 of 2010 (the “Dodd-Frank Act”) 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. The Dodd-Frank Act as well as other post-financial crisis regulatory reforms in the United States have increased costs, imposed limitations on activities and resulted in an increased intensity in regulatory enforcement and fines across the banking and financial services sector. The current U.S. Presidential administration has expressed different policy goals with respect to regulation of the U.S. financial system, but the impact that the U.S. Presidential administration’s policy goals or any new or proposed legislation could have on the regulatory requirements currently imposed on us remains uncertain.

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 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, or may have to incur increased costs or make changes to our operations in order to do so. Any such failures to comply with those changes 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.

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, the development of new technologies in the “Fintech” and other sectors, along with the corresponding rise of new entrants from these sectors into the financial services industry, 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, prolonged monetary easing by the Bank of Japan (“BOJ”) may continue to lower the domestic interest spreads. This may significantly affect the businesses of commercial banks in Japan, including us. 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, transportation, communications and public enterprises, wholesale and retail, 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 the prices of oil, gas and other natural resources, 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 0.6%, 0.7% and 0.8% at March 31, 2018, 2017 and 2016, 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, the Company 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 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 SMBC 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 Cedyna Financial Corporation (“Cedyna”) 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, Cedyna, 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 Cedyna, 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.***

SMBC 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, which are at risk of being damaged or failing as a result of various incidents including cyberattacks, 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 at risk of being damaged or failing as a result of quality problems, human errors, natural disasters, power losses, sabotage, acts of terrorism, cyberattacks and similar events.

In particular, cybersecurity risks for financial institutions have significantly increased in recent years. This is partly because of the continuous introduction of new technologies and the use of the Internet and telecommunications technologies as well as the elaboration of the cyberattacks, which include computer viruses, malicious code, phishing attacks or other security breaches. As we rely on information technology systems in our business and our receipt and handling of confidential personal information from our customers, any impairment, compromise or destruction of such systems may interfere with, or temporarily prevent us from, continuing our operations. In addition, we also face indirect cybersecurity risks relating to our customers and other third parties, including counterparties in the financial services industry. As a result of increasing consolidation, interdependence and complexity of financial entities and technology systems, a technology failure or cyberattack could have a material impact on counterparties or other market participants, including us. Any third-party technology failure or cyberattack could adversely affect our ability to execute transactions or deliver services to our clients effectively. For example, vulnerabilities in third-party technology systems may be exploited in ways that increase the risk our information technology systems are exposed to cyberattacks.

Accordingly, we have taken steps to protect information technology systems from these risks, including by establishing data recovery capability and functionality, and to address all contingencies that could arise in the event of a major disruption of services. Particularly, we have adopted our “Declaration of Cyber Security Management” in order to further strengthen our cybersecurity capabilities. In this declaration, our management recognizes cybersecurity as a major management issue and takes a leadership role in implementing measures such as allocating appropriate resources based on discussions at the meetings of the Management Committee and the board of directors, establishing a special department and manual for emergencies and enhancing security measures for our services including internet banking services.

However, these measures may not be sufficient, especially considering the increasing frequency and sophistication of recent cyberattacks. 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, asset management 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, 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 SMBC 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 SMBC through these Iranian banks related to our customers' projects in Iran. The performance bonds expired and have not been renewed, but SMBC 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 SMBC 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 SMBC with the requirements of the relevant regulations in the past. We have continuously strengthened our SMBC 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 and the others were closed without a penalty. 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 remained in effect, including those targeting significant transactions involving Iranian or Iran-related Specially Designated Nationals and Blocked Persons ("SDNs"). However, on May 8, 2018, President Trump announced that he was terminating the United States' participation in the JCPOA and that all nuclear-related secondary sanctions authorities targeting Iran would be reinstated after specified wind down periods. In accordance with applicable laws and regulations, SMBC 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 SMBC 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, SMBC 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 SMBC 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. SMBC 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 on June 29, 2017. For further information, see “Item 6.C. Board Practices.”

## Information Concerning the Principal Capital Expenditures and Divestitures

In April 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. In September 2016, GE Japan changed its corporate name to SMFL Capital Company, Limited.

## Public Takeover Offers

Not applicable.

## 4.B. BUSINESS OVERVIEW

### Overview

We are the holding company for the SMBC Group. The SMBC Group is comprised of SMBC, SMBC Trust Bank Ltd. (“SMBC Trust Bank”), SMFL, SMBC Nikko Securities Inc. (“SMBC Nikko Securities”), Sumitomo Mitsui Card Company, Limited (“Sumitomo Mitsui Card”), Cedyna Financial Corporation (“Cedyna”), SMBC Consumer Finance Co., Ltd. (“SMBC Consumer Finance”), The Japan Research Institute, Limited (“The Japan Research Institute”), Sumitomo Mitsui Asset Management Company, Limited (“SMAM”) and other subsidiaries and affiliates. We are one of the three largest financial groups in Japan and offer a diverse range of financial services, including commercial banking, leasing, securities, consumer finance and other services.

On April 1, 2017, we introduced SMBC Group-wide business units, which determine strategies for each customer segment across SMBC 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 ended 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 Wholesale Business, Retail Business, International Business and Global Markets Business, with the remaining operations recorded in Head office account and others. See “Item 4.C. Organizational Structure.”

On March 23, 2018, with the aim of enhancing our corporate group’s brand value, we announced that “SMBC” would be designated as our corporate group’s master brand from April 2018. In line with this change, our corporate group, which was formerly referred to as the “Sumitomo Mitsui Financial Group” or its acronym “SMFG,” is now referred to as the “SMBC Group.” “Sumitomo Mitsui Financial Group” continues to be used as the holding company’s name.

## **Management Philosophy**

Our SMBC 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 SMBC 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 SMBC 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 firm, 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 financial group 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 our business growth and the development of our employees by setting challenging targets within an evaluation and compensation framework which emphasizes their capabilities and achievements.

## **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 SMBC 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 SMBC 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. SMBC and some of our other SMBC 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.

In our Credit Policy, which describes the universal and basic philosophies, guidelines and rules for credit operations, SMBC declares its policy of prohibiting credit for problematic loans in terms of public responsibility, or extending credit for loans which may have a significant negative impact on the global environment and to the society. For large-scale projects which may potentially exert a major impact on the environment and society, SMBC adopts the Equator Principles, a set of guidelines developed by private-sector financial institutions for managing environmental and social risk related to financing large-scale projects, and conducts environmental and social risk assessments.

SMBC has policies for specific sectors listed below, which may have environmental and social influences such as adverse impact on human rights and climate change. These policies have been reflected in our Credit Policy.

- Coal-fired power plants;
- Palm oil plantation developments;
- Deforestation;
- Cluster munitions and other slaughter weapons manufacturing; and
- Soil contamination and asbestos.

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

### ***Wholesale Business Unit***

The Wholesale Business Unit provides financing, investment management, risk hedging and settlement services as well as financial solutions that respond to wide-ranging client needs in relation to M&A and other advisory services and leasing, primarily for large-and mid-sized corporate clients in Japan. This business unit mainly consists of the wholesale businesses of SMBC, SMBC Nikko Securities, SMBC Trust Bank and SMFL.

### ***Financing and Investment Management***

The Wholesale Business Unit provides financing services that include bilateral loans, syndicated loans, commitment lines, structured finance, project finance, nonrecourse loans to and investments in corporate customers directly or through private equity funds, securitization, debt and equity underwriting and corporate bond trustee and registrar services.

The Wholesale Business Unit also provides investment management services such as deposits and investment trusts. In addition, this business unit offers a wide range of securities products including structured bonds and subordinated bonds to corporate clients through SMBC and SMBC Nikko Securities.

### ***Risk Hedging***

The Wholesale Business Unit provides various risk hedging services including forward exchange contracts and derivatives to meet our customers' demand for hedging risks such as interest rate risk or foreign exchange rate risk in their transactions. This business unit also provides guarantee services including stand-by credit, performance bond and credit guarantee services.

### ***Settlement***

The Wholesale Business Unit offers a variety of products and services including remittance, cash management, trade finance for export and import activities and supply chain finance to optimize customers' cash flows and business flows.

### *M&A and Other Advisory Services*

The Wholesale Business Unit responds to customers' diversifying business strategies and management issues by providing solutions custom-tailored to their business characteristics and growth stage.

The Wholesale Business Unit caters to large corporate clients in their global business activities by leveraging the collective strength of SMBC Group companies. For example, SMBC and SMBC Nikko Securities support the entire deal process of cross-border M&A projects on a collaborative basis.

For mid-sized companies, the Wholesale Business Unit provides a wide range of financial services including direct investment, LBO financing, debt restructuring, support for initial public offering and M&A advisory to enhance our customers' corporate value, working in conjunction with private equity funds as necessary. In real estate and related businesses, this business unit provides a full lineup of services including brokerage and asset management by SMBC Trust Bank and funding support mainly by SMBC.

For start-up companies, the Wholesale Business Unit offers support in accordance with clients' stage of growth such as management consulting, venture investment, financing and support for initial public offerings.

For clients considering business overseas, the Wholesale Business Unit provides tailored information on local laws and regulations and on Japanese companies already present in target countries. For clients who already have business overseas, each SMBC Group company collaborates to provide high quality solutions in areas such as business expansion and reorganization.

### *Leasing*

The Wholesale Business Unit provides a wide range of leasing services including equipment, operating and leveraged leasing mainly through SMFL. SMFL is one of the major leasing companies in Japan. We have a 60% equity interest in SMFL, while the remaining 40% is held by Sumitomo Corporation ("Sumitomo Corp"), 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. On September 5, 2016, GE Japan changed its corporate name to SMFL Capital Company, Limited.

We announced on November 6, 2017 that we had entered into a basic agreement with Sumitomo Corp concerning the reorganization of our joint leasing partnership, and concluded on March 30, 2018 the final agreement regarding the reorganization, subject to the approval of foreign and domestic regulatory authorities. The completion of the reorganization is tentatively scheduled from November 2018 to January 2019. In this reorganization, we will transfer a portion of our shares of SMFL, a company jointly owned by us and Sumitomo Corp, to SMFL. Following the share transfer, our equity interest in SMFL will decrease from the current 60% to 50% while Sumitomo Corp's equity interest will increase from 40% to 50%. As a result, SMFL will cease to be our consolidated subsidiary and will become our joint venture, and its consolidated subsidiaries SMBC Aviation Capital Limited, which belongs to the International Business Unit, and SMFL Capital Company, Limited will become our equity method investees. Subsequently, SMFL Capital Company, Limited will be merged into SMFL.

### *Retail Business Unit*

The Retail Business Unit provides financial services to both consumers residing in Japan and domestic small-sized companies and mainly consists of the retail businesses of SMBC, SMBC Nikko Securities and SMBC Trust Bank together with three consumer finance companies, Sumitomo Mitsui Card, Cedyna and SMBC Consumer Finance.

This business unit offers a wide range of products and services for consumers, including wealth management, settlement services, consumer finance and housing loans, in order to address the financial needs of all individual customers.

#### *Wealth Management*

The Retail Business Unit offers a variety of financial services including personal bank accounts, deposit products such as ordinary deposits, time deposits and foreign currency deposits, investment trust, equity, bond and insurance products.

In addition, SMBC and SMBC Nikko Securities are promoting greater collaboration in order to meet customers' diverse needs for asset management by leveraging their respective strengths of a broad client base and a high advisory capability.

On January 1, 2018, SMBC Nikko Securities merged with SMBC Friend Securities Co., Ltd., which had been our wholly owned subsidiary. This merger was made for the purpose of strengthening our securities business by reinforcing consulting-type sales, enhancing productivity through the optimization of sales personnel staffing and achieving cost saving synergies through the consolidation of overlapping management infrastructure.

In addition, the Retail Business Unit, through SMBC Trust Bank, 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., a wholly owned subsidiary of Citigroup Inc. This acquisition was made for the purpose of expanding our business model to offer additional products and services to our customers, including foreign currency investment products and global services.

#### *Settlement*

The Retail Business Unit conducts credit card, installment and solution businesses and provides customers with secure and convenient payment methods.

In the credit card business, Sumitomo Mitsui Card and Cedyna conduct a comprehensive credit card business with a strong brand, and offer a variety of settlement and finance services to meet diverse customer needs.

Sumitomo Mitsui Card is a leading company in Japan's credit card industry, having introduced the Visa brand into the Japanese market. We, Sumitomo Mitsui Card, SMBC 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 online retailers to satisfy both these partners' and cardholders' needs.

Cedyna conducts credit card, installment (such as shopping credit and automobile loan) and solution (such as collection outsourcing and factoring) businesses. On April 1, 2016, Cedyna merged with SAKURA CARD CO., LTD., which had been our subsidiary and engaged in the credit card business, to further enhance its capability to meet the wide range of customer needs and deliver higher value-added products and services.

SMBC, Sumitomo Mitsui Card and Cedyna are leveraging their strengths to address cashless payment needs and integrate marketing and business operations.

### *Consumer Finance*

The Retail Business Unit offers a variety of consumer loan products including unsecured card loan products mainly through SMBC and SMBC Consumer Finance to meet the wide range of individual customers' demand for funds. Also, SMBC Consumer Finance guarantees certain consumer loans made by SMBC and other financial institutions.

In addition, SMBC and SMBC Mobit Co., LTD., ("SMBC Mobit") which is a wholly owned subsidiary of SMBC Consumer Finance engaged in the card loan business, are strengthening their partnership. For example, a loan card from SMBC Mobit can be applied for or received through automated contract machines in SMBC branch offices.

### *Housing Loans*

The Retail Business Unit provides housing loans with a variety of terms and interest rates, including fixed-rate loans with 2- to 35-year terms, to meet diversified customer needs. As an example of a product addressing a specific customer need, this business unit 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. Housing loans are principally secured by collateral or supported by guarantees.

The Retail Business Unit operations are mainly conducted through a large and well developed branch network. We had a domestic network consisting of 441 SMBC branch offices, 26 SMBC Trust Bank branch offices, 148 SMBC Nikko Securities branch offices and 959 SMBC Consumer Finance staffed and unstaffed branch offices at March 31, 2018. Some SMBC 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 Retail Business Unit also operates an extensive network of ATMs in Japan. At March 31, 2018, SMBC offers its customers' access to 56,012 ATMs, some of which are SMBC's ATMs and the majority of which are ATMs made available through arrangements with other ATM providers such as convenience store chains. SMBC Consumer Finance offers its customers' access to 1,967 automatic contract machines and ATMs at March 31, 2018.

This business unit also offers internet banking services for consumers. At March 31, 2018, SMBC's internet banking services had approximately 16 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 mobile phones and traditional telephones.

Moreover, in credit card business, there are approximately 27 million and 16 million card holders of Sumitomo Mitsui Card and Cedyna at March 31, 2018.

The Retail Business Unit is implementing an initiative to supply customers with convenient and easy-to-use services by utilizing digital technologies and expand consulting space for individual clients at SMBC branches, while pushing ahead with digitalization of administrative processes and the transfer of administrative functions of branches to administration centers. These reforms will enable us to reduce costs while providing customers with convenient and high quality services.

The Retail Business Unit promotes digitalization in a variety of areas, including a debit card offering that addresses cashless payment needs, a smartphone application that allows our customers to easily and seamlessly view information on transactions with SMBC, SMBC Nikko Securities and Sumitomo Mitsui Card, an automated chat service utilizing artificial intelligence and a biometric authentication platform.

This business unit also provides private banking and asset succession consulting for high-net-worth individuals.

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

### ***International Business Unit***

The International Business Unit supports the global businesses of a diverse range of clients, such as Japanese companies operating overseas, non-Japanese companies, financial institutions, and government agencies and public corporations of various countries. This business unit mainly consists of the international businesses of SMBC, SMBC Nikko Securities, SMBC Trust Bank, SMFL and their foreign subsidiaries. At March 31, 2018, we have global network of 129 offices in 40 countries and regions.

#### ***Banking Business***

The International 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, derivatives and global cash management services.

At March 31, 2018, SMBC's international network consisted of 18 branches, 22 sub-branches and 4 representative offices and SMBC seeks to meet customers' needs globally, together with the network of SMBC's foreign banking subsidiaries such as Sumitomo Mitsui Banking Corporation Europe Limited with 7 offices and Sumitomo Mitsui Banking Corporation (China) Limited 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.

#### ***Securities Business***

In overseas markets, the International Business Unit provides services such as underwriting activities, Japanese stockbroking and M&A advisory through SMBC Nikko Capital Markets Limited and SMBC Nikko Securities America, Inc., which are subsidiaries of SMBC in the United Kingdom and the United States respectively. In addition, this business unit provides Japanese stockbroking and M&A advisory services through SMBC Nikko Securities (Hong Kong) Limited and SMBC Nikko Securities (Singapore) Pte. Ltd., and M&A advisory related services through SMBC Nikko Investment Consulting (Shanghai) Limited. Together with other SMBC Nikko Securities' subsidiaries and affiliates, this business unit offers high quality financial services to clients on a global basis.

#### ***Leasing Business***

The International Business Unit provides a variety of leasing services related to the construction machinery, transportation equipment, industrial machinery, medical equipment and other categories mainly through SMFL's offices overseas. This business unit also offers aircraft leasing services through SMBC Aviation Capital Limited, a subsidiary of SMFL, and railcar leasing services through SMBC Rail Services LLC, which is a railcar operating leasing company and a subsidiary of SMBC Leasing and Finance, Inc.

For detailed information on the reorganization of our joint leasing partnership, see "Wholesale Business Unit—Leasing" in this section.

On June 1, 2017, we, through SMBC Rail Services LLC, acquired all membership interests of American Railcar Leasing LLC, one of the leading railcar leasing companies in the United States. We pursued this acquisition based on our expectation that railcar leasing business in the United States will experience further growth and high profitability due to stable demand for rail freight transportation, which is the core infrastructure for inland logistics. Through this acquisition, we aim to expand our railcar leasing business and services by further enhancing our fleet portfolio to appropriately meet diverse needs of clients in a wide range of industries.

### ***Global Markets Business Unit***

The Global Markets Business Unit offers solutions through foreign exchange products, derivatives, bonds, stocks and other marketable financial products and also undertakes asset liability management operations, which help comprehensively control balance sheet liquidity risks and interest rate risks. This business unit consists of the Treasury Unit of SMBC and the Product Unit of SMBC Nikko Securities.

#### ***Asset Liability Management and Portfolio Management***

The Global Markets Business Unit maintains high profitability and stability by establishing a portfolio with highly liquid products and focusing on products for which investment appetite is high, and by carrying out portfolio rebalancing in a nimble and dynamic manner in response to changes in market conditions.

#### ***Foreign Currency Funding***

To support our overseas businesses, this business unit strives to improve the stability of our foreign currency funding by diversifying funding methods and expanding the scope of investors we target. At the same time, this business unit keeps appropriate control of the balance sheet in response to international financial regulations.

#### ***Sales and Trading***

The Global Markets Business Unit provides detailed information on market conditions and economic trends to address customers' hedging and asset management needs, expands its product lineup in foreign exchange, derivative, bond, stock and other products and supplies timely solutions to increase customer satisfaction and SMBC Group earnings.

In addition, this business unit encourages the use of electronic transactions such as its electronic foreign exchange execution platform available via the Internet to respond to the needs of a wider range of customers.

### ***Other Major Business***

#### ***System Development, Data Processing, Management Consulting and Economic Research***

We provide financial consultation services relating to management reforms, IT, the planning and development of strategic information systems and outsourcing. We also conduct diverse activities including domestic and international economic research and analysis, policy recommendations and business incubation. We offer these services mainly through The Japan Research Institute.

#### ***Asset Management***

We engage 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, our former associate, became our subsidiary. On May 11, 2018, we announced that we had concluded a memorandum of understanding regarding a merger of SMAM and Daiwa SB Investments Ltd., our associate, in April 2019, subject to the approval of regulatory authorities. We expect the merged company to enhance its investment management capabilities and business foundations, in addition to expanding the scale of its operations. The merged company is scheduled to become our subsidiary.

#### ***Others***

Our associates Kansai Urban Banking Corporation ("KUBC") and THE MINATO BANK, LTD. ("The Minato Bank") engage in commercial banking business in Kansai area.

In March 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. (“Resona Holdings”), a financial holding company head quartered in Japan. In September 2017, we executed a business integration agreement in connection with the plan. As part of this business integration, KUBC and The Minato Bank ceased to be our subsidiaries and became our equity-method associates. In addition, through a series of transactions including share exchanges effected in April 2018, the three banks became wholly owned subsidiaries of Kansai Mirai Financial Group, Inc., an intermediate holding company established by Resona Holdings, and Kansai Mirai Financial Group, Inc. became our equity-method associate.

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

To expand its overseas portfolio and revenue, SMBC 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 SMBC in order to hedge in part the credit risk to its investment in the William Street Entities. SMBC, 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, SMBC has issued letters of credit and may issue one or more additional letters of credit (each a second letter of credit (“SLC Series”) exposing SMBC 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 SMBC 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, SMBC 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 SMBC 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 SMBC.
- Unless SMBC 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 SMBC 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 SMBC and Goldman Sachs otherwise agree.

SMBC, through a separate bankruptcy-remote Cayman Islands subsidiary, has collateralized the obligations on the FLC and a portion of the SLC Series by buying \$1.505 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, SMBC 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, SMBC has the right to substitute as collateral high quality liquid securities for the Goldman Sachs demand notes.

These arrangements are designed to collateralize SMBC's obligations in the event SMBC'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 SMBC or SMBC'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 SMBC to support Goldman Sachs' obligations under the Goldman Sachs demand notes. As an initial 15-year period under the letters of credit lapsed in February 2018, SMBC and Goldman Sachs have been able to negotiate in good faith to extend the terms of the letter of credit arrangements for one additional five-year term taking it up to 25 years. Before the expiration of the initial 20-year term, in certain circumstances, the letter of credit arrangements with SMBC may be terminated by SMBC 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 SMBC 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 SMBC 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***

On May 15, 2017, we announced our new medium-term management plan, "SMFG Next Stage" (currently "SMBC Group Next Stage"), for the three-years through March 2020. By combining the SMBC 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 of becoming "a global financial group that, by earning the highest trust of our customers, leads the growth of Japan and the Asian region."

#### ***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 SMBC Group companies by fully utilizing digital technology. Specifically, we intend to enhance productivity on an SMBC 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 SMBC 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” on June 29, 2017. To maximize business opportunities on an SMBC Group-wide and global basis, we have established SMBC 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 an SMBC Group-wide basis. Further, we intend to optimize resource allocation by sharing management resources, for example by exchanging employees among SMBC Group companies. In addition, we intend to control the allocation of human resources and IT investment on an SMBC 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 have revised the executive pay system by introducing stock-based compensation which is linked to financial targets within our medium-term management plan and to our stock performance in order to tighten the link with business performance. We also raised 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, 2018, 2017, and 2016, based on the total operating income of our offices in the indicated regions. For each of the periods presented, we earned more than half 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.

|                                          | For the fiscal year ended March 31, |             |             |
|------------------------------------------|-------------------------------------|-------------|-------------|
|                                          | 2018                                | 2017        | 2016        |
| <b>Region:</b>                           |                                     |             |             |
| Japan .....                              | 70%                                 | 70%         | 77%         |
| Foreign:                                 |                                     |             |             |
| Americas .....                           | 9%                                  | 9%          | 5%          |
| Europe and Middle East .....             | 13%                                 | 12%         | 10%         |
| Asia and Oceania (excluding Japan) ..... | 8%                                  | 9%          | 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. 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. On December 15, 2017, the FSA published a report outlining its new supervisory approaches which include expanding the scope of its supervisory approaches from a backward-looking, element-by-element compliance check to substantive, forward-looking and holistic analysis and judgment. According to the report, the FSA will repeal the FSA's Financial Inspection Manual after April 1, 2019. 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 SMBC 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 SMBC). 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 resecuritization 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 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 delayed 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 was revised in April 2018. This 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 or that are subject to TLAC requirements or similar requirements by the relevant foreign authorities, 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.

On December 7, 2017, the GHOS endorsed the outstanding Basel III regulatory reforms. The endorsed reforms include the following elements:

- a revised standardized approach for credit risk;
- revisions to the internal ratings-based approach for credit risk, where the use of the most advanced internally modeled approaches for low-default portfolios will be limited;
- revisions to the credit valuation adjustment framework, including the removal of the internally modeled approach and the introduction of a revised standardized approach;
- a revised standardized approach for operational risk, which will replace the existing standardized approaches and the advanced measurement approach;
- revisions to the measurement of the leverage ratio and a leverage ratio buffer for G-SIBs; and
- revisions to the capital floor, under which banks’ risk-weighted assets must be no lower than 72.5% of total risk-weighted assets as calculated using only the standardized approaches under the revised Basel III framework, and a requirement that banks disclose their risk-weighted assets based on such standardized approaches.

The revised framework, other than revisions to the capital floor, will take effect from January 1, 2022. The revisions to the capital floor will be phased in from January 1, 2022, with an initial capital floor of 50%, and will reach 72.5% by January 1, 2027.

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. From January 1, 2013 to January 1, 2017, the BCBS monitored banks' leverage ratio data to assess whether the design and calibration of its indicated minimum leverage ratio of 3% was appropriate.

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%. On December 7, 2017, the definition and requirements of the leverage ratio were revised as part of the revised Basel III reforms. Under the revised Basel III reforms, in addition to meeting the minimum leverage ratio, G-SIBs are required to meet a leverage ratio buffer, which will take the form of a Tier 1 capital buffer set at 50% of the applicable G-SIB capital surcharge. Various refinements were also made to the definition of the leverage ratio exposure measure. The leverage ratio requirements under the definition based on the framework issued by the BCBS in January 2014 were implemented as a Pillar 1 measurement from January 2018, and those under the revised definition and the leverage ratio buffer requirement for the G-SIBs will be implemented as a Pillar 1 measurement from January 1, 2022.

#### *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 at least 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. The NSFR was scheduled to be introduced as a minimum standard by January 1, 2018. We will be subject to the NSFR requirement, as implemented in Japan, but the FSA has not published any guidelines for the NSFR.

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

Financial institutions, including SMBC, 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. SMBC 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, SMBC is required to establish a reserve for its loan portfolio in an amount SMBC considers adequate at a balance sheet date. Three categories of reserves SMBC 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 to March 2018, they amounted to 0.049% and 0.036%, respectively. Furthermore, from April 2018, they amounted to 0.046% and 0.033% 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 SMBC), 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, SMBC 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., SMBC 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 2018.

#### *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 must report information pertaining to financial accounts of specific non-residents and the information is 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, SMBC and the Company are subject to extensive federal and state banking and securities supervision and regulation. SMBC 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, Silicon Valley and Chicago. SMBC also controls a U.S. banking subsidiary, Manufacturers Bank, and a U.S. broker-dealer subsidiary, SMBC Nikko Securities America, Inc.

SMBC'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"). SMBC'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. SMBC's representative office in Houston is subject to regulation and examination by the Texas Department of Banking and the Federal Reserve Bank of Dallas. SMBC'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 SMBC's representative office in Chicago is subject to regulation and examination by the Illinois Department of Financial and Professional Regulation and the Federal Reserve Bank of Chicago.

SMBC and the Company 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 U.S. Bank Holding Company Act of 1956, as amended ("Bank Holding Company Act"). Additionally, SMBC and the Company are bank holding companies by virtue of their ownership of Manufacturers Bank. As a result, SMBC, the Company 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 SMBC 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 SMBC's and the Company's ability to engage, directly or indirectly through subsidiaries, in certain activities in the United States.

SMBC and the Company 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, SMBC is required to serve as a source of financial strength to Manufacturers Bank. In addition, SMBC's U.S. banking operations (including Manufacturers Bank and SMBC's U.S. branches) are also restricted from engaging in certain "tying" arrangements involving products and services.

As financial holding companies, we, SMBC 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 SMBC 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*

SMBC'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, SMBC'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 SMBC'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 SMBC's U.S. branches, these single-borrower lending limits are based on the worldwide capital of SMBC.

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 the Company 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 SMBC 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 SMBC are subject to additional regulatory requirements. For example, we, SMBC 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, SMBC and Manufacturers Bank must be “well managed,” including maintenance of examination ratings that are at least satisfactory. Further, SMBC 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 SMBC 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*

#### *U.S. Financial Regulatory Reform*

Both the scope of the U.S. laws and regulations and the intensity of supervision have increased in recent years, in response to the financial crisis as well as other factors such as technological and market changes. Regulatory enforcement and fines have also increased across the banking and financial services sector. Many of these changes have occurred as a result of the Dodd-Frank Act and its implementing regulations, most of which are now in place, and have resulted in or are anticipated to result in additional costs and impose certain limitations on our and SMBC’s business activities. The current U.S. Presidential administration has expressed different policy goals with respect to financial regulation, but the impact that such U.S. Presidential administration’s policy goals or any new or proposed legislation could have on the regulatory requirements currently imposed on us and SMBC remains uncertain.

In 2013, the Federal Reserve Board, the SEC, the Office of the Comptroller of the Currency (“OCC”), the FDIC, and the Commodity Futures Trading Commission (“CFTC”) adopted final rules implementing what is known as the “Volcker Rule.” The final rules restrict the ability of banking entities, such as us and SMBC, to engage as principal in proprietary trading activities, or sponsor, invest in, or retain investments in certain private equity, hedge or similar funds, but a number of exclusions and exemptions limit the final rules’ extraterritorial reach.

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 SMBC, 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 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.

The Dodd-Frank Act removed a longstanding prohibition on the payment of interest on demand deposits by Manufacturers Bank and SMBC'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 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.

The Dodd-Frank Act also provides for an extensive framework for the regulation of OTC derivatives, including mandatory clearing, exchange trading and transaction reporting of certain OTC derivatives. In 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. Mandatory clearing, trade execution and reporting requirements for swaps took effect in 2013. Registration as a security-based swap dealer is not required until the SEC finalizes certain security-based swap rules that are still in proposed form.

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.

On May 24, 2018, President Trump signed into law the Economic Growth, Regulatory Relief, and Consumer Protection Act, which is the first significant legislative reform of the Dodd Frank Act. Although this legislation makes changes to several major provisions of the Dodd Frank Act, the changes mainly relate to smaller U.S. banks and to U.S. bank holding companies, and have we expected them to limited effect upon the SMBC Group.

### ***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.

Prior to U.S. withdrawal from the JCPOA (discussed below), the United States along with the European Union 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 continued to be generally prohibited from engaging in transactions involving Iran. In addition, certain U.S. secondary sanctions targeting Iran remained 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 engaged 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 SMBC's policy not to conduct activities targeted by secondary sanctions.

On May 8, 2018, President Trump announced that he was terminating the United States' participation in the JCPOA and issued a National Security Presidential Memorandum directing his administration to immediately begin the process of fully re-imposing sanctions that target critical sectors of Iran's economy, including the energy, petrochemical, and financial sectors. This includes the resumption of U.S. efforts to reduce Iran's crude oil sales, which will be backed by the potential threat of correspondent account sanctions targeting foreign financial institutions once the applicable wind-down period has ended, subject (as before the JCPOA) to exceptions from such sanctions for countries determined by the U.S. State Department to have significantly reduced purchases of crude oil from Iran. Depending on the particular sanctions measure, the United States provides for either a 90-day or 180-day period from May 8, 2018 in which activities permitted under or consistent with the JCPOA can be wound down. Following the conclusion of the applicable wind-down period, persons engaged in such activities involving Iran will face exposure to secondary sanctions or enforcement actions under U.S. law. Additionally, the U.S. government has indicated that no later than November 5, 2018, the U.S. government will re-impose, as appropriate, sanctions on persons removed on Implementation Day from the SDN List or other sanctions lists.

#### *Ukraine Freedom Support Act of 2014, as Amended*

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, as amended by the Countering America's Adversaries Through Sanctions Act of 2017 (signed into law on August, 2017), mandates 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, aims 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 SMBC 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, SMBC’s U.S.-registered broker-dealer subsidiary, SMBC Nikko Securities America, Inc. 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, Inc. 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 SMBC'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, 2018, 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, 2018, the gross revenue related to these transactions was ¥10.9 million, representing about 0.0003% 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 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, 2018, the gross revenue relating to these transactions was ¥21.7 million, representing less than 0.0007% 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, 2018, was less than ¥0.8 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 and to the extent the activities are not targeted by secondary sanctions.

As of the date of this annual report, to our knowledge, there is no other activity for the twelve months ended March 31, 2018 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, 2018.

|                                       |                    |                                                                                                                          | Business Segments <sup>(2)</sup> |                      |                             |                              |                                |
|---------------------------------------|--------------------|--------------------------------------------------------------------------------------------------------------------------|----------------------------------|----------------------|-----------------------------|------------------------------|--------------------------------|
|                                       |                    |                                                                                                                          | Wholesale Business Unit          | Retail Business Unit | International Business Unit | Global Markets Business Unit | Head office account and others |
| Sumitomo Mitsui Financial Group, Inc. | Commercial Banking | (Domestic)                                                                                                               |                                  |                      |                             |                              |                                |
|                                       |                    | Sumitomo Mitsui Banking Corporation (SMBC)                                                                               | ○                                | ○                    | ○                           | ○                            | ○                              |
|                                       |                    | SMBC Trust Bank Ltd.                                                                                                     | ○                                | ○                    | ○                           |                              |                                |
|                                       |                    | SMBC Guarantee Co., Ltd.                                                                                                 |                                  | ○                    |                             |                              |                                |
|                                       |                    | THE MINATO BANK, LTD. <sup>(1)</sup>                                                                                     |                                  |                      |                             |                              | ○                              |
|                                       |                    | Kansai Urban Banking Corporation <sup>(1)</sup>                                                                          |                                  |                      |                             |                              | ○                              |
|                                       |                    | 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>                                                         |                                  |                      | ○                           |                              |                                |
|                                       | Leasing            | (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.                                                                                           |                                  |                      | ○                           |                              |                                |
|                                       | Securities         | SMBC Aviation Capital Limited                                                                                            |                                  |                      | ○                           |                              |                                |
|                                       |                    | (Domestic)                                                                                                               |                                  |                      |                             |                              |                                |
|                                       |                    | SMBC Nikko Securities Inc.                                                                                               | ○                                | ○                    | ○                           | ○                            | ○                              |
|                                       |                    | (Foreign)                                                                                                                |                                  |                      |                             |                              |                                |
|                                       | Consumer Finance   | SMBC Nikko Securities America, Inc.                                                                                      |                                  |                      | ○                           |                              |                                |
|                                       |                    | SMBC Nikko Capital Markets Limited                                                                                       |                                  |                      | ○                           |                              |                                |
|                                       |                    | (Domestic)                                                                                                               |                                  |                      |                             |                              |                                |
|                                       |                    | Sumitomo Mitsui Card Company, Limited (Credit card)                                                                      |                                  | ○                    |                             |                              |                                |
|                                       |                    | Cedyna Financial Corporation (Credit card and consumer credit)                                                           |                                  | ○                    |                             |                              |                                |
|                                       |                    | SMBC Consumer Finance Co., Ltd. (Consumer lending)                                                                       |                                  | ○                    |                             |                              |                                |
|                                       |                    | SMBC Mobit Co., Ltd. (Consumer lending)                                                                                  |                                  | ○                    |                             |                              |                                |
|                                       |                    | SMBC Finance Service Co., Ltd. (Collecting agent and factoring)                                                          |                                  | ○                    |                             |                              |                                |
|                                       | Others             | POCKET CARD CO., LTD. <sup>(1)</sup> (Credit card)                                                                       |                                  | ○                    |                             |                              |                                |
|                                       |                    | (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)                                                          |                                  |                      |                             |                              | ○                              |
|                                       |                    | NCore 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)                                                                                 |                                  |                      | ○                           |                              |                                |

(1) These companies are our associates.

(2) Chart indicates the classification of SMBC Group companies into each of SMBC Group-wide business segments.

As the ultimate holding company of the SMBC 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 SMBC Group-wide basis.

## Principal Subsidiaries

Our principal subsidiaries at March 31, 2018 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*

| <u>Company Name</u>                                               | <u>Proportion<br/>of Ownership<br/>Interest<sup>(1)</sup></u><br>(%) | <u>Proportion<br/>of Voting<br/>Rights<sup>(1)</sup></u><br>(%) | <u>Main Business</u>                                                                   |
|-------------------------------------------------------------------|----------------------------------------------------------------------|-----------------------------------------------------------------|----------------------------------------------------------------------------------------|
| Sumitomo Mitsui Banking Corporation . . . . .                     | 100.0                                                                | 100.0                                                           | Commercial banking                                                                     |
| SMBC Trust Bank Ltd. . . . .                                      | 100.0                                                                | 100.0                                                           | Trust Banking                                                                          |
| SMBC Guarantee Co., Ltd. . . . .                                  | 100.0                                                                | 100.0                                                           | Credit guarantee                                                                       |
| Sumitomo Mitsui Finance and Leasing<br>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                                                                             |
| 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                                                                       |
| SMBC 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,<br>management consulting and economic<br>research |
| Sumitomo Mitsui Asset Management<br>Company, Limited . . . . .    | 60.0                                                                 | 60.0                                                            | Investment advisory and investment<br>trust management                                 |
| SAKURA KCS Corporation . . . . .                                  | 47.4                                                                 | 47.4 <sup>(2)</sup>                                             | System engineering and data processing                                                 |
| NCore Co., Ltd. . . . .                                           | 51.0                                                                 | 51.0                                                            | Data processing service and consulting                                                 |
| SMBC Venture Capital Co., Ltd. . . . .                            | 40.0                                                                 | 40.0 <sup>(2)</sup>                                             | Venture capital                                                                        |
| SMBC Consulting Co., Ltd. . . . .                                 | 100.0                                                                | 100.0                                                           | Management consulting and<br>information services                                      |
| Japan Pension Navigator Co., Ltd. . . . .                         | 69.7                                                                 | 69.7                                                            | Operational management of defined<br>contribution pension plans                        |

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

(2) 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<br/>Incorporation</u> | <u>Proportion<br/>of Ownership<br/>Interest<sup>(1)</sup></u><br>(%) | <u>Proportion<br/>of Voting<br/>Rights<sup>(1)</sup></u><br>(%) | <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 SMBC's East Tower in Marunouchi, with a net carrying value of ¥172 billion, including the land and building, at March 31, 2018.

The following table shows the net carrying amount of our tangible fixed assets at March 31, 2018.

|                       | <u>At March 31, 2018</u><br>(In millions) |
|-----------------------|-------------------------------------------|
| Assets for rent ..... | ¥ 580,687                                 |
| Land .....            | 459,567                                   |
| Buildings .....       | 331,997                                   |
| Leased assets .....   | 6,149                                     |
| Others .....          | 131,732                                   |
| Total .....           | <u>¥ 1,510,132</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, 2018 was approximately 703,000 square meters for owned land and approximately 14,000 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, 2018, Japanese gross domestic product (“GDP”) increased by 1.6%, compared with an increase of 1.2% in the previous fiscal year, based on data published in June 2018 by the Cabinet Office of the Government of Japan.

For the fiscal year ended March 31, 2018, the Japanese economy continued to recover gradually. The quarter-on-quarter growth rate of Japanese GDP was 0.5% for the period from April to June 2017, primarily due to an increase in private consumption. For the period from July to September 2017, Japanese GDP increased by 0.5% on a quarter-on-quarter basis, reflecting the improvement in exports of goods and services. For the period from October to December 2017, Japanese GDP increased by 0.3% on a quarter-on-quarter basis with private consumption increasing. However, for the period from January to March 2018, Japanese GDP decreased by 0.2% on a quarter-on-quarter basis.

Private consumption, which accounts for about 56% of Japanese GDP, increased by 0.9% for the fiscal year ended March 31, 2018, reflecting the steady improvement in the employment and income situation. For the period from April to June 2017, it increased by 0.7% on a quarter-on-quarter basis. However, it decreased by 0.7% on a quarter-on-quarter basis for the period from July to September 2017. This is partly due to a temporary correction to the rapid increase in the previous quarter and the negative impact of unusual weather conditions on private consumption. Although, it increased by 0.3% on a quarter-on-quarter basis for the period from October to December 2017, it decreased by 0.1% on a quarter-on-quarter basis for the period from January to March 2018.

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 3.2% for the fiscal year ended March 31, 2018, since corporate earnings remained at a high level. For the period from April to June 2017, capital investments by business increased by 0.9% on a quarter-on-quarter basis. For the periods from July to September 2017 and October to December 2017, they increased, on a quarter-on-quarter basis, by 1.0% and 0.7%, respectively. Thereafter, for the period from January to March 2018, they increased by 0.3% on a quarter-on-quarter basis. Private residential investments decreased by 0.3% for the fiscal year ended March 31, 2018. For the period from April to June 2017, they increased by 0.9% on a quarter-on-quarter basis. However, for the periods from July to September 2017 and October to December 2017, they decreased, on a quarter-on-quarter basis, by 1.6% and 2.7%, respectively, reflecting the downward trend of both the number of dwelling units and the area of floor space for construction starts of dwellings in the second half of the previous fiscal year. Then, for the period from January to March 2018, they decreased by 1.8% on a quarter-on-quarter basis.

Changes in private inventories contributed Japanese GDP growth by 0.1 percentage points for the fiscal year ended March 31, 2018. For the period from April to June 2017, they pulled down Japanese GDP growth by 0.1 percentage points on a quarter-on-quarter basis. However, they contributed Japanese GDP growth, on a quarter-on-quarter basis, by 0.4 percentage points for the period from July to September 2017 and by 0.2 percentage points for

the period from October to December 2017, respectively. Thereafter, for the period from January to March 2018, they pulled down Japanese GDP growth by 0.2 percentage points on a quarter-on-quarter basis.

The ratio of exports of goods and services to Japanese GDP was about 17%, and exports of goods and services increased by 6.2% for the fiscal year ended March 31, 2018. For the period from April to June 2017, they decreased by 0.1% on a quarter-on-quarter basis. However, for the periods from July to September 2017 and October to December 2017, they increased, on a quarter-on-quarter basis, by 2.0% and 2.2%, respectively, primarily due to the recovery of exports to some Asian countries. Thereafter, for the period from January to March 2018, they increased by 0.6% 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 increased by 4.0% for the fiscal year ended March 31, 2018. For the period from April to June 2017, they increased by 1.8% on a quarter-on-quarter basis, reflecting robust private consumption. Although they decreased by 1.3% on a quarter-on-quarter basis for the period from July to September 2017, they increased by 3.1% on a quarter-on-quarter basis for the period from October to December 2017. Thereafter, for the period from January to March 2018, they increased by 0.3% on a quarter-on-quarter basis.

Industrial production, as a whole, increased moderately throughout the fiscal year ended March 31, 2018, reflecting the increase in domestic and foreign demand.

The employment situation continued to improve during the fiscal year ended March 31, 2018, 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 2.5% in March 2018, a decrease of 0.3 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 1.7% for the fiscal year ended March 31, 2018, reflecting the current employment situation. This was the third consecutive year that compensation of employees increased.

Further, according to Teikoku Databank, a research institution in Japan, there were approximately 8,300 corporate bankruptcies in Japan during the fiscal year ended March 31, 2018, an increase of 1.6% from the previous fiscal year, involving approximately ¥1.7 trillion in total liabilities, a decrease of 13.0% from the previous fiscal year.

Interest rates in Japanese financial and capital markets are affected by the monetary policy measures of the BOJ. In 2016, in addition to the existing provision of ample funds, the BOJ introduced “quantitative and qualitative monetary easing with a negative interest rate” as part of its “quantitative and qualitative monetary easing,” and “quantitative and qualitative monetary easing with yield curve control.” Under this policy framework, 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. Moreover, 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. Under such circumstances, the uncollateralized overnight call rate, which is the benchmark short-term interest rate, remained negative for the fiscal year ended March 31, 2018. The yield on newly issued Japanese government bonds with a maturity of 10 years, which is the benchmark long-term interest rate, was at around 0% for the same period.

The Nikkei Stock Average, which is a price-weighted average of 225 stocks listed on the Tokyo Stock Exchange First Section, rose from ¥18,909.26 at March 31, 2017 to ¥24,124.15 at January 23, 2018, its highest closing level since November 1991. However, it then dropped to ¥21,454.30 at March 30, 2018.

The yen appreciated against the U.S. dollar from ¥111.80 at March 31, 2017 to ¥106.19 at March 30, 2018, according to the statistical data published by the BOJ.

The global economy, as a whole, continued to recover gradually for the fiscal year ended March 31, 2018.

For the fiscal year ended March 31, 2018, 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 steadily for the fiscal year ended March 31, 2018. On the other hand, the Chinese economy, as a whole, was picking up gradually for the fiscal year ended March 31, 2018, although it showed some signs of slowing down in the middle of the fiscal year. The growth momentum in other Asian economies showed some signs of picking up for the fiscal year ended March 31, 2018.

In addition to economic factors and conditions, we expect that our results of operations and financial condition will be significantly affected by regulatory trends such as the Basel III reforms and the Dodd-Frank Act. 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 SMBC. SMBC controls its exposure to interest rate fluctuations through asset and liability management operations.

SMBC, 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.

The BOJ announced in October 2014 the expansion of its “quantitative and qualitative monetary easing” introduced in April 2013, and in December 2015 the introduction of “supplementary measures for quantitative and qualitative monetary easing,” in order to achieve the price stability target of 2% in terms of the year-on-year rate of increase in the consumer price index. In January 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 in February 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, SMBC

lowered its ordinary deposit rate by 0.019 percentage points from 0.02% to 0.001% in February 2016. Thereafter, in September 2016, the BOJ announced the introduction of “quantitative and qualitative monetary easing with yield curve control.” Under this 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 SMBC’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, |        |        |
|---------------------------------|--------------|--------|--------|
|                                 | 2018         | 2017   | 2016   |
| Short-term prime rate . . . . . | 1.475%       | 1.475% | 1.475% |
| Three-month TIBOR . . . . .     | 0.069        | 0.057  | 0.099  |
| Ordinary deposit rate . . . . . | 0.001        | 0.001  | 0.001  |
| Long-term prime rate . . . . .  | 1.000        | 0.950  | 0.950  |
| Ten-year swap rate . . . . .    | 0.261        | 0.265  | 0.149  |

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 SMBC’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 Cedyna, and from our securities business, conducted through SMBC Nikko Securities and SMBC Friend Securities (until January 1, 2018, the date of the merger with SMBC Nikko Securities). The principal components of Sumitomo Mitsui Card’s and Cedyna’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 increased by 12.8% from ¥16,758.67 at March 31, 2016, to ¥18,909.26 at March 31, 2017, and increased by 13.5% to ¥21,454.30 at March 31, 2018. At March 31, 2018, we had net unrealized gains on domestic equity securities of ¥2,924,591 million, an increase of ¥228,469 million from ¥2,696,122 million at March 31, 2017. 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, 2018 was ¥110.86 per \$1.00, compared to the previous fiscal year’s average exchange rate of ¥108.36 per \$1.00. The percentage of revenue we earned from our foreign operations for both fiscal years ended March 31, 2018 and 2017 were 30%. 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 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 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 ¥126,623 million, ¥141,457 million and ¥118,750 million were recognized for the fiscal years ended March 31, 2018, 2017 and 2016, 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 ¥10,185 million, ¥71,510 million and ¥29,606 million for the fiscal years ended March 31, 2018, 2017 and 2016, 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, 2018, 2017 and 2016, impairment losses on goodwill were ¥28,607 million, ¥74,616 million and ¥1,124 million, 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 ¥145,179 million and ¥157,333 million at March 31, 2018 and 2017, 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 ¥279,567 million and ¥192,772 million at March 31, 2018 and 2017, 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 ¥19,436 million and ¥81,961 million in the consolidated statement of financial position at March 31, 2018 and 2017, respectively, while the net total of deferred tax assets and liabilities amounted to net liabilities of ¥378,305 million and ¥238,240 million at March 31, 2018 and 2017, respectively.

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

See “New and Amended Accounting Standards Adopted by the SMBC 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 increased by ¥464,452 million from ¥3,347,895 million for the fiscal year ended March 31, 2017 to ¥3,812,347 million for the fiscal year ended March 31, 2018, primarily due to increases in net investment income and other income. Our net profit increased by ¥149,012 million from ¥740,586 million for the fiscal year ended March 31, 2017 to ¥889,598 million for the fiscal year ended March 31, 2018, due to the increase in total operating income described above, which was partially offset by an increase in operating expenses.

Our total assets increased by ¥1,024,585 million from ¥191,150,981 million at March 31, 2017 to ¥192,175,566 million at March 31, 2018, primarily due to increases in cash and deposits with banks and investment securities, which were partially offset by a decrease in loans and advances.

Our total liabilities increased by ¥416,069 million from ¥179,263,698 million at March 31, 2017 to ¥179,679,767 million at March 31, 2018, primarily due to an increase in repurchase agreements and cash collateral on securities lent, which was partially offset by a decrease in deposits.

Our total equity increased by ¥608,516 million from ¥11,887,283 million at March 31, 2017 to ¥12,495,799 million at March 31, 2018, primarily due to increases in retained earnings and other reserves, which were partially offset by a decrease in non-controlling interests.

## Operating Results

The following table presents information as to our income, expenses and net profit for the fiscal years ended March 31, 2018, 2017 and 2016.

|                                                                              | For the fiscal year ended March 31,  |                  |                  |
|------------------------------------------------------------------------------|--------------------------------------|------------------|------------------|
|                                                                              | 2018                                 | 2017             | 2016             |
|                                                                              | (In millions, except per share data) |                  |                  |
| Interest income                                                              | ¥2,144,070                           | ¥1,900,261       | ¥1,872,584       |
| Interest expense                                                             | 733,969                              | 502,338          | 431,101          |
| Net interest income                                                          | 1,410,101                            | 1,397,923        | 1,441,483        |
| Fee and commission income                                                    | 1,131,364                            | 1,066,412        | 1,031,680        |
| Fee and commission expense                                                   | 178,867                              | 181,573          | 131,381          |
| Net fee and commission income                                                | 952,497                              | 884,839          | 900,299          |
| Net trading income                                                           | 270,464                              | 183,963          | 462,682          |
| Net income (loss) from financial assets at fair value through profit or loss | (667)                                | 2,018            | 12,260           |
| Net investment income                                                        | 424,097                              | 305,327          | 375,229          |
| Other income                                                                 | 755,855                              | 573,825          | 496,273          |
| <b>Total operating income</b>                                                | <b>3,812,347</b>                     | <b>3,347,895</b> | <b>3,688,226</b> |
| Impairment charges on financial assets                                       | 136,808                              | 212,967          | 148,356          |
| <b>Net operating income</b>                                                  | <b>3,675,539</b>                     | <b>3,134,928</b> | <b>3,539,870</b> |
| General and administrative expenses                                          | 1,813,121                            | 1,752,135        | 1,706,263        |
| Other expenses                                                               | 792,765                              | 531,759          | 538,963          |
| <b>Operating expenses</b>                                                    | <b>2,605,886</b>                     | <b>2,283,894</b> | <b>2,245,226</b> |
| Share of post-tax profit of associates and joint ventures                    | 49,323                               | 29,318           | 31,056           |
| <b>Profit before tax</b>                                                     | <b>1,118,976</b>                     | <b>880,352</b>   | <b>1,325,700</b> |
| Income tax expense                                                           | 229,378                              | 139,766          | 372,878          |
| <b>Net profit</b>                                                            | <b>¥ 889,598</b>                     | <b>¥ 740,586</b> | <b>¥ 952,822</b> |
| Profit attributable to:                                                      |                                      |                  |                  |
| Shareholders of Sumitomo Mitsui Financial Group, Inc.                        | ¥ 759,998                            | ¥ 627,870        | ¥ 843,920        |
| Non-controlling interests                                                    | 119,878                              | 104,787          | 106,129          |
| Other equity instruments holders                                             | 9,722                                | 7,929            | 2,773            |
| Earnings per share:                                                          |                                      |                  |                  |
| Basic                                                                        | ¥ 538.84                             | ¥ 458.56         | ¥ 617.25         |
| Diluted                                                                      | 538.43                               | 458.18           | 616.83           |

### *Fiscal Year Ended March 31, 2018 Compared to Fiscal Year Ended March 31, 2017*

Total operating income increased by ¥464,452 million, or 14%, from ¥3,347,895 million for the fiscal year ended March 31, 2017 to ¥3,812,347 million for the fiscal year ended March 31, 2018, primarily due to increases in net investment income of ¥118,770 million and other income of ¥182,030 million. In addition, due to a decrease in impairment charges on financial assets, net operating income increased by ¥540,611 million from ¥3,134,928 million for the fiscal year ended March 31, 2017 to ¥3,675,539 million for the fiscal year ended March 31, 2018.

Net profit increased by ¥149,012 million from ¥740,586 million for the fiscal year ended March 31, 2017 to ¥889,598 million for the fiscal year ended March 31, 2018, as a result of the increase in net operating income described above, which was partially offset by an increase in other expenses.

*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.

### 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, 2018, 2017 and 2016.

| For the fiscal year ended March 31,                                       |                 |              |                                |                 |              |                                |                 |              |       |
|---------------------------------------------------------------------------|-----------------|--------------|--------------------------------|-----------------|--------------|--------------------------------|-----------------|--------------|-------|
| 2018                                                                      |                 |              | 2017                           |                 |              | 2016                           |                 |              |       |
| 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 . . . . .                                                | ¥ 848,242       | ¥ 4,536      | 0.53%                          | ¥ 762,460       | ¥ 4,099      | 0.54%                          | ¥ 768,976       | ¥ 4,771      | 0.62% |
| Foreign offices . .                                                       | 4,873,905       | 73,681       | 1.51%                          | 4,617,409       | 41,671       | 0.90%                          | 5,786,836       | 35,701       | 0.62% |
| Total . . . . .                                                           | 5,722,147       | 78,217       | 1.37%                          | 5,379,869       | 45,770       | 0.85%                          | 6,555,812       | 40,472       | 0.62% |
| Call loans and bills bought:                                              |                 |              |                                |                 |              |                                |                 |              |       |
| Domestic offices . . . . .                                                | 81,336          | 412          | 0.51%                          | 76,227          | 467          | 0.61%                          | 147,992         | 861          | 0.58% |
| Foreign offices . .                                                       | 1,730,409       | 18,950       | 1.10%                          | 1,303,429       | 11,598       | 0.89%                          | 967,442         | 20,967       | 2.17% |
| Total . . . . .                                                           | 1,811,745       | 19,362       | 1.07%                          | 1,379,656       | 12,065       | 0.87%                          | 1,115,434       | 21,828       | 1.96% |
| Reverse repurchase agreements and cash collateral on securities borrowed: |                 |              |                                |                 |              |                                |                 |              |       |
| Domestic offices . . . . .                                                | 8,120,363       | 14,563       | 0.18%                          | 7,443,668       | 12,151       | 0.16%                          | 6,675,810       | 10,763       | 0.16% |
| Foreign offices . .                                                       | 1,222,180       | 25,458       | 2.08%                          | 1,009,997       | 17,450       | 1.73%                          | 741,623         | 11,248       | 1.52% |
| Total . . . . .                                                           | 9,342,543       | 40,021       | 0.43%                          | 8,453,665       | 29,601       | 0.35%                          | 7,417,433       | 22,011       | 0.30% |
| Held-to-maturity investments <sup>(1)</sup> :                             |                 |              |                                |                 |              |                                |                 |              |       |
| Domestic offices . . . . .                                                | 784,339         | 3,244        | 0.41%                          | 1,809,777       | 6,756        | 0.37%                          | 2,964,539       | 12,880       | 0.43% |
| Total . . . . .                                                           | 784,339         | 3,244        | 0.41%                          | 1,809,777       | 6,756        | 0.37%                          | 2,964,539       | 12,880       | 0.43% |
| Available-for-sale financial assets <sup>(1)</sup> :                      |                 |              |                                |                 |              |                                |                 |              |       |
| Domestic offices . . . . .                                                | 9,799,861       | 44,053       | 0.45%                          | 7,477,480       | 41,561       | 0.56%                          | 10,878,176      | 38,701       | 0.36% |
| Foreign offices . .                                                       | 3,406,370       | 54,998       | 1.61%                          | 2,945,084       | 39,031       | 1.33%                          | 2,425,249       | 33,331       | 1.37% |
| Total . . . . .                                                           | 13,206,231      | 99,051       | 0.75%                          | 10,422,564      | 80,592       | 0.77%                          | 13,303,425      | 72,032       | 0.54% |
| Loans and advances <sup>(2)</sup> :                                       |                 |              |                                |                 |              |                                |                 |              |       |
| Domestic offices . . . . .                                                | 68,551,116      | 1,093,584    | 1.60%                          | 66,948,344      | 1,082,058    | 1.62%                          | 63,177,259      | 1,091,538    | 1.73% |
| Foreign offices . .                                                       | 28,121,904      | 810,591      | 2.88%                          | 25,298,515      | 643,419      | 2.54%                          | 26,272,983      | 611,823      | 2.33% |
| Total . . . . .                                                           | 96,673,020      | 1,904,175    | 1.97%                          | 92,246,859      | 1,725,477    | 1.87%                          | 89,450,242      | 1,703,361    | 1.90% |
| Total interest-earning assets:                                            |                 |              |                                |                 |              |                                |                 |              |       |
| Domestic offices . . . . .                                                | 88,185,257      | 1,160,392    | 1.32%                          | 84,517,956      | 1,147,092    | 1.36%                          | 84,612,752      | 1,159,514    | 1.37% |
| Foreign offices . .                                                       | 39,354,768      | 983,678      | 2.50%                          | 35,174,434      | 753,169      | 2.14%                          | 36,194,133      | 713,070      | 1.97% |
| Total . . . . .                                                           | ¥127,540,025    | ¥2,144,070   | 1.68%                          | ¥119,692,390    | ¥1,900,261   | 1.59%                          | ¥120,806,885    | ¥1,872,584   | 1.55% |

| For the fiscal year ended March 31,                           |                   |              |                                |                   |              |                                |                   |              |       |
|---------------------------------------------------------------|-------------------|--------------|--------------------------------|-------------------|--------------|--------------------------------|-------------------|--------------|-------|
| 2018                                                          |                   |              | 2017                           |                   |              | 2016                           |                   |              |       |
| 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 . . . . .                                    | ¥ 87,138,742      | ¥ 44,941     | 0.05%                          | ¥ 82,738,015      | ¥ 35,881     | 0.04%                          | ¥ 78,458,170      | ¥ 48,032     | 0.06% |
| Foreign offices . . .                                         | 25,413,734        | 337,812      | 1.33%                          | 23,383,002        | 213,147      | 0.91%                          | 22,838,530        | 154,280      | 0.68% |
| Total . . . . .                                               | 112,552,476       | 382,753      | 0.34%                          | 106,121,017       | 249,028      | 0.23%                          | 101,296,700       | 202,312      | 0.20% |
| Call money and bills sold:                                    |                   |              |                                |                   |              |                                |                   |              |       |
| Domestic offices . . . . .                                    | 845,376           | 302          | 0.04%                          | 603,065           | 92           | 0.02%                          | 2,199,407         | 1,524        | 0.07% |
| Foreign offices . . .                                         | 801,565           | 8,461        | 1.06%                          | 618,949           | 5,194        | 0.84%                          | 663,310           | 4,059        | 0.61% |
| Total . . . . .                                               | 1,646,941         | 8,763        | 0.53%                          | 1,222,014         | 5,286        | 0.43%                          | 2,862,717         | 5,583        | 0.20% |
| Repurchase agreements and cash collateral on securities lent: |                   |              |                                |                   |              |                                |                   |              |       |
| Domestic offices . . . . .                                    | 10,015,944        | 16,774       | 0.17%                          | 7,149,638         | 5,616        | 0.08%                          | 7,172,312         | 8,582        | 0.12% |
| Foreign offices . . .                                         | 4,205,510         | 44,567       | 1.06%                          | 3,081,806         | 15,007       | 0.49%                          | 2,009,593         | 6,523        | 0.32% |
| Total . . . . .                                               | 14,221,454        | 61,341       | 0.43%                          | 10,231,444        | 20,623       | 0.20%                          | 9,181,905         | 15,105       | 0.16% |
| Borrowings:                                                   |                   |              |                                |                   |              |                                |                   |              |       |
| Domestic office . . . . .                                     | 11,331,752        | 61,460       | 0.54%                          | 8,113,368         | 58,772       | 0.72%                          | 10,251,890        | 56,353       | 0.55% |
| Foreign offices . . .                                         | 983,616           | 27,736       | 2.82%                          | 847,353           | 21,063       | 2.49%                          | 823,446           | 15,850       | 1.92% |
| Total . . . . .                                               | 12,315,368        | 89,196       | 0.72%                          | 8,960,721         | 79,835       | 0.89%                          | 11,075,336        | 72,203       | 0.65% |
| Debt securities in issue:                                     |                   |              |                                |                   |              |                                |                   |              |       |
| Domestic offices . . . . .                                    | 9,298,368         | 166,769      | 1.79%                          | 8,320,124         | 130,613      | 1.57%                          | 7,999,705         | 120,285      | 1.50% |
| Foreign offices . . .                                         | 2,180,438         | 24,005       | 1.10%                          | 2,193,406         | 16,324       | 0.74%                          | 3,044,714         | 14,887       | 0.49% |
| Total . . . . .                                               | 11,478,806        | 190,774      | 1.66%                          | 10,513,530        | 146,937      | 1.40%                          | 11,044,419        | 135,172      | 1.22% |
| Other interest-bearing liabilities:                           |                   |              |                                |                   |              |                                |                   |              |       |
| Domestic offices . . . . .                                    | 102,683           | 524          | 0.51%                          | 95,660            | 579          | 0.61%                          | 93,104            | 676          | 0.73% |
| Foreign offices . . .                                         | 23,466            | 618          | 2.63%                          | 3,531             | 50           | 1.42%                          | 1,960             | 50           | 2.55% |
| Total . . . . .                                               | 126,149           | 1,142        | 0.91%                          | 99,191            | 629          | 0.63%                          | 95,064            | 726          | 0.76% |
| Total interest-bearing liabilities:                           |                   |              |                                |                   |              |                                |                   |              |       |
| Domestic offices . . . . .                                    | 118,732,865       | 290,770      | 0.24%                          | 107,019,870       | 231,553      | 0.22%                          | 106,174,588       | 235,452      | 0.22% |
| Foreign offices . . .                                         | 33,608,329        | 443,199      | 1.32%                          | 30,128,047        | 270,785      | 0.90%                          | 29,381,553        | 195,649      | 0.67% |
| Total . . . . .                                               | ¥152,341,194      | ¥ 733,969    | 0.48%                          | ¥137,147,917      | ¥ 502,338    | 0.37%                          | ¥135,556,141      | ¥ 431,101    | 0.32% |
| <b>Net interest income and interest rate spread . . . .</b>   | <b>¥1,410,101</b> | <b>1.20%</b> |                                | <b>¥1,397,923</b> | <b>1.22%</b> |                                | <b>¥1,441,483</b> | <b>1.23%</b> |       |

- (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, 2018 compared to the fiscal year ended March 31, 2017, and those for the fiscal year ended March 31, 2017 compared to the fiscal year ended March 31, 2016.

|                                                                           | Fiscal year ended March 31, 2018<br>compared to<br>fiscal year ended March 31, 2017<br>Increase / (decrease) |           |            | Fiscal year ended March 31, 2017<br>compared to<br>fiscal year ended March 31, 2016<br>Increase / (decrease) |           |            |
|---------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|-----------|------------|--------------------------------------------------------------------------------------------------------------|-----------|------------|
|                                                                           | Volume                                                                                                       | Rate      | Net change | Volume                                                                                                       | Rate      | Net change |
| (In millions)                                                             |                                                                                                              |           |            |                                                                                                              |           |            |
| <b>Interest income:</b>                                                   |                                                                                                              |           |            |                                                                                                              |           |            |
| Interest-earning deposits with other banks:                               |                                                                                                              |           |            |                                                                                                              |           |            |
| Domestic offices . . . . .                                                | ¥ 456                                                                                                        | ¥ (19)    | ¥ 437      | ¥ (40)                                                                                                       | ¥ (632)   | ¥ (672)    |
| Foreign offices . . . . .                                                 | 2,427                                                                                                        | 29,583    | 32,010     | (8,263)                                                                                                      | 14,233    | 5,970      |
| Total . . . . .                                                           | 2,883                                                                                                        | 29,564    | 32,447     | (8,303)                                                                                                      | 13,601    | 5,298      |
| Call loans and bills bought:                                              |                                                                                                              |           |            |                                                                                                              |           |            |
| Domestic offices . . . . .                                                | 30                                                                                                           | (85)      | (55)       | (436)                                                                                                        | 42        | (394)      |
| Foreign offices . . . . .                                                 | 4,321                                                                                                        | 3,031     | 7,352      | 5,697                                                                                                        | (15,066)  | (9,369)    |
| Total . . . . .                                                           | 4,351                                                                                                        | 2,946     | 7,297      | 5,261                                                                                                        | (15,024)  | (9,763)    |
| Reverse repurchase agreements and cash collateral on securities borrowed: |                                                                                                              |           |            |                                                                                                              |           |            |
| Domestic offices . . . . .                                                | 1,140                                                                                                        | 1,272     | 2,412      | 1,229                                                                                                        | 159       | 1,388      |
| Foreign offices . . . . .                                                 | 4,049                                                                                                        | 3,959     | 8,008      | 4,487                                                                                                        | 1,715     | 6,202      |
| Total . . . . .                                                           | 5,189                                                                                                        | 5,231     | 10,420     | 5,716                                                                                                        | 1,874     | 7,590      |
| Held-to-maturity investments:                                             |                                                                                                              |           |            |                                                                                                              |           |            |
| Domestic offices . . . . .                                                | (4,139)                                                                                                      | 627       | (3,512)    | (4,455)                                                                                                      | (1,669)   | (6,124)    |
| Total . . . . .                                                           | (4,139)                                                                                                      | 627       | (3,512)    | (4,455)                                                                                                      | (1,669)   | (6,124)    |
| Available-for-sale financial assets:                                      |                                                                                                              |           |            |                                                                                                              |           |            |
| Domestic offices . . . . .                                                | 11,440                                                                                                       | (8,948)   | 2,492      | (14,692)                                                                                                     | 17,552    | 2,860      |
| Foreign offices . . . . .                                                 | 6,686                                                                                                        | 9,281     | 15,967     | 6,939                                                                                                        | (1,239)   | 5,700      |
| Total . . . . .                                                           | 18,126                                                                                                       | 333       | 18,459     | (7,753)                                                                                                      | 16,313    | 8,560      |
| Loans and advances:                                                       |                                                                                                              |           |            |                                                                                                              |           |            |
| Domestic offices . . . . .                                                | 25,753                                                                                                       | (14,227)  | 11,526     | 63,231                                                                                                       | (72,711)  | (9,480)    |
| Foreign offices . . . . .                                                 | 76,079                                                                                                       | 91,093    | 167,172    | (23,302)                                                                                                     | 54,898    | 31,596     |
| Total . . . . .                                                           | 101,832                                                                                                      | 76,866    | 178,698    | 39,929                                                                                                       | (17,813)  | 22,116     |
| Total interest income:                                                    |                                                                                                              |           |            |                                                                                                              |           |            |
| Domestic offices . . . . .                                                | 34,680                                                                                                       | (21,380)  | 13,300     | 44,837                                                                                                       | (57,259)  | (12,422)   |
| Foreign offices . . . . .                                                 | 93,562                                                                                                       | 136,947   | 230,509    | (14,442)                                                                                                     | 54,541    | 40,099     |
| Total . . . . .                                                           | ¥ 128,242                                                                                                    | ¥ 115,567 | ¥ 243,809  | ¥ 30,395                                                                                                     | ¥ (2,718) | ¥ 27,677   |

|                                                               | Fiscal year ended March 31, 2018<br>compared to<br>fiscal year ended March 31, 2017<br>Increase / (decrease) |            |            | Fiscal year ended March 31, 2017<br>compared to<br>fiscal year ended March 31, 2016<br>Increase / (decrease) |            |            |
|---------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|------------|------------|--------------------------------------------------------------------------------------------------------------|------------|------------|
|                                                               | Volume                                                                                                       | Rate       | Net change | Volume                                                                                                       | Rate       | Net change |
| (In millions)                                                 |                                                                                                              |            |            |                                                                                                              |            |            |
| <b>Interest expense:</b>                                      |                                                                                                              |            |            |                                                                                                              |            |            |
| Deposits:                                                     |                                                                                                              |            |            |                                                                                                              |            |            |
| Domestic offices . . . . .                                    | ¥ 1,837                                                                                                      | ¥ 7,223    | ¥ 9,060    | ¥ 2,448                                                                                                      | ¥ (14,599) | ¥ (12,151) |
| Foreign offices . . . . .                                     | 19,830                                                                                                       | 104,835    | 124,665    | 3,785                                                                                                        | 55,082     | 58,867     |
| Total . . . . .                                               | 21,667                                                                                                       | 112,058    | 133,725    | 6,233                                                                                                        | 40,483     | 46,716     |
| Call money and bills sold:                                    |                                                                                                              |            |            |                                                                                                              |            |            |
| Domestic offices . . . . .                                    | 62                                                                                                           | 148        | 210        | (715)                                                                                                        | (717)      | (1,432)    |
| Foreign offices . . . . .                                     | 1,747                                                                                                        | 1,520      | 3,267      | (286)                                                                                                        | 1,421      | 1,135      |
| Total . . . . .                                               | 1,809                                                                                                        | 1,668      | 3,477      | (1,001)                                                                                                      | 704        | (297)      |
| Repurchase agreements and cash collateral on securities lent: |                                                                                                              |            |            |                                                                                                              |            |            |
| Domestic offices . . . . .                                    | 2,971                                                                                                        | 8,187      | 11,158     | (27)                                                                                                         | (2,939)    | (2,966)    |
| Foreign offices . . . . .                                     | 7,035                                                                                                        | 22,525     | 29,560     | 4,344                                                                                                        | 4,140      | 8,484      |
| Total . . . . .                                               | 10,006                                                                                                       | 30,712     | 40,718     | 4,317                                                                                                        | 1,201      | 5,518      |
| Borrowings:                                                   |                                                                                                              |            |            |                                                                                                              |            |            |
| Domestic offices . . . . .                                    | 19,619                                                                                                       | (16,931)   | 2,688      | (13,227)                                                                                                     | 15,646     | 2,419      |
| Foreign offices . . . . .                                     | 3,639                                                                                                        | 3,034      | 6,673      | 471                                                                                                          | 4,742      | 5,213      |
| Total . . . . .                                               | 23,258                                                                                                       | (13,897)   | 9,361      | (12,756)                                                                                                     | 20,388     | 7,632      |
| Debt securities in issue:                                     |                                                                                                              |            |            |                                                                                                              |            |            |
| Domestic offices . . . . .                                    | 16,340                                                                                                       | 19,816     | 36,156     | 4,910                                                                                                        | 5,418      | 10,328     |
| Foreign offices . . . . .                                     | (97)                                                                                                         | 7,778      | 7,681      | (4,925)                                                                                                      | 6,362      | 1,437      |
| Total . . . . .                                               | 16,243                                                                                                       | 27,594     | 43,837     | (15)                                                                                                         | 11,780     | 11,765     |
| Other interest-bearing liabilities:                           |                                                                                                              |            |            |                                                                                                              |            |            |
| Domestic offices . . . . .                                    | 41                                                                                                           | (96)       | (55)       | 18                                                                                                           | (115)      | (97)       |
| Foreign offices . . . . .                                     | 493                                                                                                          | 75         | 568        | 29                                                                                                           | (29)       | 0          |
| Total . . . . .                                               | 534                                                                                                          | (21)       | 513        | 47                                                                                                           | (144)      | (97)       |
| Total interest expense:                                       |                                                                                                              |            |            |                                                                                                              |            |            |
| Domestic offices . . . . .                                    | 40,870                                                                                                       | 18,347     | 59,217     | (6,593)                                                                                                      | 2,694      | (3,899)    |
| Foreign offices . . . . .                                     | 32,647                                                                                                       | 139,767    | 172,414    | 3,418                                                                                                        | 71,718     | 75,136     |
| Total . . . . .                                               | ¥ 73,517                                                                                                     | ¥ 158,114  | ¥ 231,631  | ¥ (3,175)                                                                                                    | ¥ 74,412   | ¥ 71,237   |
| <b>Net interest income:</b>                                   |                                                                                                              |            |            |                                                                                                              |            |            |
| Domestic offices . . . . .                                    | ¥ (6,190)                                                                                                    | ¥ (39,727) | ¥ (45,917) | ¥ 51,430                                                                                                     | ¥ (59,953) | ¥ (8,523)  |
| Foreign offices . . . . .                                     | 60,915                                                                                                       | (2,820)    | 58,095     | (17,860)                                                                                                     | (17,177)   | (35,037)   |
| Total . . . . .                                               | ¥ 54,725                                                                                                     | ¥ (42,547) | ¥ 12,178   | ¥ 33,570                                                                                                     | ¥ (77,130) | ¥ (43,560) |

*Fiscal Year Ended March 31, 2018 Compared to Fiscal Year Ended March 31, 2017*

*Interest Income*

Our interest income increased by ¥243,809 million, or 13%, from ¥1,900,261 million for the fiscal year ended March 31, 2017 to ¥2,144,070 million for the fiscal year ended March 31, 2018, primarily due to an increase in interest income on loans and advances. Interest income on loans and advances increased by

¥178,698 million, or 10%, from ¥1,725,477 million for the fiscal year ended March 31, 2017 to ¥1,904,175 million for the fiscal year ended March 31, 2018, primarily due to performance in our foreign offices. Interest income on loans and advances at foreign offices increased by ¥167,172 million, or 26%, from ¥643,419 million for the fiscal year ended March 31, 2017 to ¥810,591 million for the fiscal year ended March 31, 2018, due to increases in both the average rate and volume of loans to foreign customers. Interest income on loans and advances at domestic offices slightly increased by ¥11,526 million, or 1%, from ¥1,082,058 million for the fiscal year ended March 31, 2017 to ¥1,093,584 million for the fiscal year ended March 31, 2018, due to an increase in volume which was partially offset by a decrease in the average rate reflecting the continuing intense competition in the commercial banking industry.

#### *Interest Expense*

Our interest expense increased by ¥231,631 million, or 46%, from ¥502,338 million for the fiscal year ended March 31, 2017 to ¥733,969 million for the fiscal year ended March 31, 2018, primarily due to increases in interest expense on deposits and debt securities in issue. Our interest expense on deposits increased by ¥133,725 million, or 54%, from ¥249,028 million for the fiscal year ended March 31, 2017 to ¥382,753 million for the fiscal year ended March 31, 2018, primarily due to an increase at foreign offices reflecting an increase in the average rate. Interest expense on debt securities in issue increased by ¥43,837 million, or 30%, from ¥146,937 million for the fiscal year ended March 31, 2017 to ¥190,774 million for the fiscal year ended March 31, 2018, primarily due to increases in both the average rate and volume.

#### *Net Interest Income*

Our net interest income increased by ¥12,178 million, or 1%, from ¥1,397,923 million for the fiscal year ended March 31, 2017 to ¥1,410,101 million for the fiscal year ended March 31, 2018. The net interest income increased primarily due to an increase in interest income on loans and advances, which was partially offset by increases in interest expense on deposits and debt securities in issue.

From the fiscal year ended March 31, 2017 to March 31, 2018, the average rate on loans and advances at domestic offices decreased by 0.02 percentage points from 1.62% to 1.60%, primarily due to the continuing intense competition in the commercial banking industry. The average rate on loans and advances at foreign offices increased by 0.34 percentage points from 2.54% to 2.88%. As a result, the total for loans and advances increased by 0.10 percentage points from 1.87% to 1.97%. On the other hand, the average rate on deposits increased by 0.11 percentage points from 0.23% to 0.34%, primarily due to an increase in the average rate on deposits at foreign offices by 0.42 percentage points from 0.91% to 1.33%.

#### *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%.

### *Net Fee and Commission Income*

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

|                                         | For the fiscal year ended March 31, |           |           |
|-----------------------------------------|-------------------------------------|-----------|-----------|
|                                         | 2018                                | 2017      | 2016      |
|                                         | (In millions)                       |           |           |
| <b>Fee and commission income from:</b>  |                                     |           |           |
| Loans .....                             | ¥ 120,998                           | ¥ 128,305 | ¥ 121,934 |
| Credit card business .....              | 289,509                             | 261,253   | 253,136   |
| Guarantees .....                        | 62,934                              | 58,221    | 55,618    |
| Securities-related business .....       | 147,016                             | 146,655   | 133,019   |
| Deposits .....                          | 16,169                              | 15,929    | 14,882    |
| Remittances and transfers .....         | 140,621                             | 138,029   | 133,110   |
| Safe deposits .....                     | 5,224                               | 5,414     | 5,511     |
| Trust fees .....                        | 3,854                               | 3,607     | 3,619     |
| Investment trusts .....                 | 154,419                             | 126,590   | 116,057   |
| Agency .....                            | 16,577                              | 16,753    | 16,432    |
| Others .....                            | 174,043                             | 165,656   | 178,362   |
| Total fee and commission income .....   | 1,131,364                           | 1,066,412 | 1,031,680 |
| <b>Fee and commission expense from:</b> |                                     |           |           |
| Remittances and transfers .....         | 40,214                              | 39,419    | 38,358    |
| Guarantees .....                        | 3,750                               | 3,434     | 3,071     |
| Others .....                            | 134,903                             | 138,720   | 89,952    |
| Total fee and commission expense .....  | 178,867                             | 181,573   | 131,381   |
| Net fee and commission income .....     | ¥ 952,497                           | ¥ 884,839 | ¥ 900,299 |

*Fiscal Year Ended March 31, 2018 Compared to Fiscal Year Ended March 31, 2017*

Fee and commission income increased by ¥64,952 million, or 6%, from ¥1,066,412 million for the fiscal year ended March 31, 2017 to ¥1,131,364 million for the fiscal year ended March 31, 2018. Primary sources of fee and commission income are fees obtained through our credit card business, fees and commissions obtained through investment trusts, fees obtained through securities-related business, remittance and transfer fees, and loan transaction fees. The increase in fee and commission income was primarily due to increases in fees obtained through credit card business along with business expansion and fees and commissions obtained through investment trusts reflecting the rise in stock prices and expansion of our investment trust management business.

Fee and commission expense was ¥178,867 million for the fiscal year ended March 31, 2018, decreased by ¥2,706 million, or 1%, from ¥181,573 million for the fiscal year ended March 31, 2017.

As a result, net fee and commission income increased by ¥67,658 million, or 8%, from ¥884,839 million for the fiscal year ended March 31, 2017 to ¥952,497 million for the fiscal year ended March 31, 2018.

*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.

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

The following table sets forth our net income (loss) 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, |                  |                  |
|------------------------------------------------------------------------------------------|-------------------------------------|------------------|------------------|
|                                                                                          | 2018                                | 2017             | 2016             |
|                                                                                          | (In millions)                       |                  |                  |
| <b>Net trading income:</b>                                                               |                                     |                  |                  |
| Interest rate .....                                                                      | ¥ 128,137                           | ¥ 79,650         | ¥ 240,763        |
| Foreign exchange .....                                                                   | 87,322                              | 51,143           | 204,349          |
| Equity .....                                                                             | 48,047                              | 39,478           | 18,019           |
| Credit .....                                                                             | 5,735                               | 13,063           | (2,641)          |
| Others .....                                                                             | 1,223                               | 629              | 2,192            |
| Total net trading income .....                                                           | <u>¥ 270,464</u>                    | <u>¥ 183,963</u> | <u>¥ 462,682</u> |
| <b>Net income (loss) from financial assets at fair value through profit or loss:</b>     |                                     |                  |                  |
| Net income (loss) from debt instruments .....                                            | ¥ (1,775)                           | ¥ 428            | ¥ 11,311         |
| Net income from equity instruments .....                                                 | <u>1,108</u>                        | <u>1,590</u>     | <u>949</u>       |
| Total net income (loss) from financial assets at fair value through profit or loss ..... | <u>¥ (667)</u>                      | <u>¥ 2,018</u>   | <u>¥ 12,260</u>  |
| <b>Net investment income:</b>                                                            |                                     |                  |                  |
| Net gain from disposal of debt instruments .....                                         | ¥ 4,187                             | ¥ 39,484         | ¥ 71,641         |
| Net gain from disposal of equity instruments .....                                       | 281,036                             | 142,016          | 175,494          |
| Dividend income .....                                                                    | 138,874                             | 123,827          | 128,094          |
| Total net investment income .....                                                        | <u>¥ 424,097</u>                    | <u>¥ 305,327</u> | <u>¥ 375,229</u> |

***Fiscal Year Ended March 31, 2018 Compared to Fiscal Year Ended March 31, 2017***

Net trading income, which includes income and losses from trading assets and liabilities and derivative financial instruments, increased by ¥86,501 million from ¥183,963 million for the fiscal year ended March 31, 2017 to ¥270,464 million for the fiscal year ended March 31, 2018. The increase was primarily due to an increase 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 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. The economic hedges against the foreign exchange risk 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 hedged items and hedging 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 in net trading income from interest rate related transactions and/or foreign exchange transactions.

The increase in net trading income from interest rate related transactions was primarily due to a decrease in losses from interest rate hedging instruments for the economic hedges, reflecting a smaller increase in U.S. interest rates during the fiscal year ended March 31, 2018 compared to the previous fiscal year.

As for net trading income from foreign exchange transactions, the fluctuation between the fiscal years ended March 31, 2018 and 2017 was smaller than that between the fiscal years ended March 31, 2017 and 2016. We started to apply hedge accounting on April 1, 2017 to part of the hedge transactions whose hedged items were net investments in foreign operations, which had been previously included in the economic hedges. As a result, part of the accounting mismatches from economic hedge transactions were eliminated, and this contributed to reducing the above-mentioned fluctuation.

Net income (loss) from financial assets at fair value through profit or loss decreased by ¥2,685 million from a net income of ¥2,018 million for the fiscal year ended March 31, 2017 to a net loss of ¥667 million for the fiscal year ended March 31, 2018, primarily due to a decrease in the fair value of debt instruments.

Net investment income increased by ¥118,770 million from ¥305,327 million for the fiscal year ended March 31, 2017 to ¥424,097 million for the fiscal year ended March 31, 2018. This was primarily due to an increase in net gains from sales of equity index-linked investment trusts, which was partially offset by a decrease in net gains from sales of bonds.

#### *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 as described in the previous section.

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.

### Other Income

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

|                                                                                           | For the fiscal year ended March 31, |           |           |
|-------------------------------------------------------------------------------------------|-------------------------------------|-----------|-----------|
|                                                                                           | 2018                                | 2017      | 2016      |
|                                                                                           | (In millions)                       |           |           |
| Income from operating leases . . . . .                                                    | ¥ 276,850                           | ¥ 250,460 | ¥ 206,561 |
| Income related to disposal of assets leased . . . . .                                     | 322,673                             | 152,564   | 155,280   |
| Income related to IT solution services . . . . .                                          | 29,172                              | 37,678    | 33,991    |
| Gains on disposal of property, plant and equipment, and other intangible assets . . . . . | 852                                 | 937       | 3,714     |
| Reversal of impairment losses of investments in associates and joint ventures . . . . .   | 8,123                               | —         | 4,847     |
| Gains on step acquisition of subsidiaries . . . . .                                       | —                                   | 20,344    | 118       |
| Gains on step acquisition of associates and joint ventures . . . . .                      | —                                   | —         | 1,714     |
| Others . . . . .                                                                          | 118,185                             | 111,842   | 90,048    |
| Total other income . . . . .                                                              | ¥ 755,855                           | ¥ 573,825 | ¥ 496,273 |

### Fiscal Year Ended March 31, 2018 Compared to Fiscal Year Ended March 31, 2017

Other income increased by ¥182,030 million, or 32%, from ¥573,825 million for the fiscal year ended March 31, 2017 to ¥755,855 million for the fiscal year ended March 31, 2018, primarily due to increases in income related to the disposal of assets leased and income from operating leases.

### 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.

### 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, |           |           |
|--------------------------------------------------------|-------------------------------------|-----------|-----------|
|                                                        | 2018                                | 2017      | 2016      |
|                                                        | (In millions)                       |           |           |
| Loans and advances . . . . .                           | ¥ 126,623                           | ¥ 141,457 | ¥ 118,750 |
| Available-for-sale financial assets . . . . .          | 10,185                              | 71,510    | 29,606    |
| Total impairment charges on financial assets . . . . . | ¥ 136,808                           | ¥ 212,967 | ¥ 148,356 |

### Fiscal Year Ended March 31, 2018 Compared to Fiscal Year Ended March 31, 2017

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 decreased by ¥14,834 million from ¥141,457 million for the fiscal year ended March 31, 2017 to ¥126,623 million for the fiscal year ended March 31, 2018. The decrease was primarily due to a decrease in the provision for loan losses reflecting gradual recovery of the Japanese and global economy.

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

Impairment charges on available-for-sale financial assets decreased by ¥61,325 million from ¥71,510 million for the fiscal year ended March 31, 2017 to ¥10,185 million for the fiscal year ended March 31, 2018, primarily due to a decrease in impairment charges on investment trusts, mainly those investing in Japanese or foreign stocks.

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, 2018, the types of securities on which the impairment charges were recognized included investments in limited partnerships and investment trusts.

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

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.

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, |                   |                   |
|-------------------------------------------|-------------------------------------|-------------------|-------------------|
|                                           | 2018                                | 2017              | 2016              |
|                                           | (In millions)                       |                   |                   |
| Personnel expenses                        | ¥ 864,396                           | ¥ 833,755         | ¥ 785,547         |
| Depreciation and amortization             | 171,043                             | 172,496           | 157,672           |
| Rent and lease expenses                   | 117,400                             | 115,425           | 117,482           |
| Building and maintenance expenses         | 11,167                              | 10,657            | 13,966            |
| Supplies expenses                         | 16,902                              | 16,694            | 16,628            |
| Communication expenses                    | 38,171                              | 37,250            | 36,634            |
| Publicity and advertising expenses        | 80,464                              | 79,570            | 79,453            |
| Taxes and dues                            | 83,976                              | 85,967            | 76,695            |
| Outsourcing expenses                      | 96,733                              | 96,063            | 91,837            |
| Premiums for deposit insurance            | 37,938                              | 38,180            | 36,175            |
| Office equipment expenses                 | 54,708                              | 49,127            | 47,621            |
| Others                                    | 240,223                             | 216,951           | 246,553           |
| Total general and administrative expenses | <u>¥1,813,121</u>                   | <u>¥1,752,135</u> | <u>¥1,706,263</u> |

### Fiscal Year Ended March 31, 2018 Compared to Fiscal Year Ended March 31, 2017

General and administrative expenses increased by ¥60,986 million, or 3%, from ¥1,752,135 million for the fiscal year ended March 31, 2017 to ¥1,813,121 million for the fiscal year ended March 31, 2018. This was primarily due to increases in general and administrative expenses of SMBC Nikko Securities and Sumitomo Mitsui Card related to their business development, which were partially offset by SMBC Group-wide expense control initiatives.

### 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.

### Other Expenses

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

|                                                                                  | For the fiscal year ended March 31, |                  |                  |
|----------------------------------------------------------------------------------|-------------------------------------|------------------|------------------|
|                                                                                  | 2018                                | 2017             | 2016             |
|                                                                                  | (In millions)                       |                  |                  |
| Cost of operating leases                                                         | ¥ 144,708                           | ¥ 126,320        | ¥ 95,440         |
| Cost related to disposal of assets leased                                        | 310,460                             | 140,255          | 140,083          |
| Cost related to IT solution services and IT systems                              | 92,975                              | 92,247           | 90,563           |
| Provision for interest repayment                                                 | 49,879                              | 11,439           | 141,024          |
| Losses on disposal of property, plant and equipment, and other intangible assets | 4,913                               | 6,041            | 4,302            |
| Impairment losses of property, plant and equipment                               | 27,816                              | 6,396            | 4,237            |
| Impairment losses of intangible assets                                           | 35,666                              | 74,788           | 1,278            |
| Losses on sale of investments in subsidiaries and associates                     | 28,250                              | —                | 24               |
| Impairment losses of investments in associates and joint ventures                | 19,851                              | 14,941           | 17,306           |
| Others                                                                           | 78,247                              | 59,332           | 44,706           |
| Total other expenses                                                             | <u>¥ 792,765</u>                    | <u>¥ 531,759</u> | <u>¥ 538,963</u> |

*Fiscal Year Ended March 31, 2018 Compared to Fiscal Year Ended March 31, 2017*

Other expenses increased by ¥261,006 million, or 49%, from ¥531,759 million for the fiscal year ended March 31, 2017 to ¥792,765 million for the fiscal year ended March 31, 2018, primarily due to increases in cost related to disposal of assets leased, cost of operating leases and provision for interest repayment.

*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.

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

*Fiscal Year Ended March 31, 2018 Compared to Fiscal Year Ended March 31, 2017*

Share of post-tax profit of associates and joint ventures increased by ¥20,005 million from ¥29,318 million for the fiscal year ended March 31, 2017 to ¥49,323 million for the fiscal year ended March 31, 2018. This was primarily due to an increase in profit of The Bank of East Asia, Limited, reflecting gains on sale of its subsidiary.

*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.

***Income Tax Expense***

*Fiscal Year Ended March 31, 2018 Compared to Fiscal Year Ended March 31, 2017*

Income tax expense increased by ¥89,612 million from ¥139,766 million for the fiscal year ended March 31, 2017 to ¥229,378 million for the fiscal year ended March 31, 2018, primarily due to a correction to the reversal of the write-down of deferred tax assets in the previous fiscal year in accordance with the adoption of the consolidated corporate-tax system in Japan from the fiscal year beginning April 1, 2017. For further information on 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, 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. For further information on the consolidated corporate tax-system, 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: the Wholesale Business Unit, the Retail Business Unit, the International Business Unit and the Global Markets Business Unit, with the remaining operations recorded in Head office account and others. We changed our business segment information for the fiscal year ended March 31, 2018 in connection with the introduction of SMBC Group-wide business units, which determine strategies for each customer segment across the SMBC Group companies. The business segment was previously reported as Commercial Banking, Leasing, Securities and Consumer Finance, with the remaining operations recorded in Others. Comparative information has been restated.

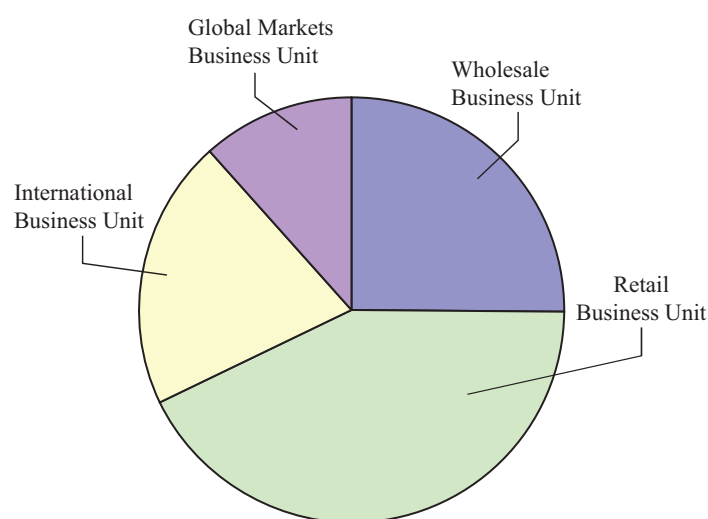
Our organizational charts are provided in “Item 4.C. Organizational Structure.” Since figures reported to management are prepared under Japanese GAAP, the segment information does not agree to figures in the consolidated financial statements under IFRS. This difference is addressed in Note 4 “Segment 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, 2018:

|                                                    | Wholesale<br>Business<br>Unit | Retail<br>Business<br>Unit | International<br>Business<br>Unit | Global Markets<br>Business<br>Unit | Head office<br>account and<br>others | Total     |
|----------------------------------------------------|-------------------------------|----------------------------|-----------------------------------|------------------------------------|--------------------------------------|-----------|
|                                                    | (In billions)                 |                            |                                   |                                    |                                      |           |
| Consolidated gross profit <sup>(1)</sup> . . . . . | ¥ 772.9                       | ¥ 1,311.7                  | ¥ 632.0                           | ¥ 356.2                            | ¥ (91.7)                             | ¥ 2,981.1 |
| General and administrative expenses . . . . .      | (347.9)                       | (1,027.7)                  | (280.7)                           | (53.9)                             | (106.0)                              | (1,816.2) |
| Others <sup>(2)</sup> . . . . .                    | 53.7                          | 15.6                       | 46.9                              | 17.5                               | (94.8)                               | 38.9      |
| Consolidated net business profit . . . . .         | ¥ 478.7                       | ¥ 299.6                    | ¥ 398.2                           | ¥ 319.8                            | ¥ (292.5)                            | ¥ 1,203.8 |

Consolidated Gross Profit by Business Segment  
(For the fiscal year ended March 31, 2018)



**For the fiscal year ended March 31, 2017:**

|                                                    | Wholesale<br>Business<br>Unit | Retail<br>Business<br>Unit | International<br>Business<br>Unit | Global Markets<br>Business<br>Unit | Head office<br>account and<br>others | Total     |
|----------------------------------------------------|-------------------------------|----------------------------|-----------------------------------|------------------------------------|--------------------------------------|-----------|
|                                                    | (In billions)                 |                            |                                   |                                    |                                      |           |
| Consolidated gross profit <sup>(1)</sup> . . . . . | ¥ 776.4                       | ¥ 1,313.9                  | ¥ 566.1                           | ¥ 346.8                            | ¥ (82.5)                             | ¥ 2,920.7 |
| General and administrative expenses . . . . .      | (344.8)                       | (1,041.1)                  | (241.2)                           | (50.2)                             | (135.1)                              | (1,812.4) |
| Others <sup>(2)</sup> . . . . .                    | 45.6                          | 12.1                       | 38.5                              | 8.2                                | (79.8)                               | 24.6      |
| Consolidated net business profit . . . . .         | ¥ 477.2                       | ¥ 284.9                    | ¥ 363.4                           | ¥ 304.8                            | ¥ (297.4)                            | ¥ 1,132.9 |

**For the fiscal year ended March 31, 2016:**

|                                                    | Wholesale<br>Business<br>Unit | Retail<br>Business<br>Unit | International<br>Business<br>Unit | Global Markets<br>Business<br>Unit | Head office<br>account and<br>others | Total     |
|----------------------------------------------------|-------------------------------|----------------------------|-----------------------------------|------------------------------------|--------------------------------------|-----------|
|                                                    | (In billions)                 |                            |                                   |                                    |                                      |           |
| Consolidated gross profit <sup>(1)</sup> . . . . . | ¥ 749.2                       | ¥ 1,272.7                  | ¥ 588.8                           | ¥ 354.1                            | ¥ (60.8)                             | ¥ 2,904.0 |
| General and administrative expenses . . . . .      | (325.3)                       | (1,000.6)                  | (236.5)                           | (49.2)                             | (113.2)                              | (1,724.8) |
| Others <sup>(2)</sup> . . . . .                    | 48.0                          | 10.0                       | (23.9)                            | 8.8                                | (79.2)                               | (36.3)    |
| Consolidated net business profit . . . . .         | ¥ 471.9                       | ¥ 282.1                    | ¥ 328.4                           | ¥ 313.7                            | ¥ (253.2)                            | ¥ 1,142.9 |

(1) Consolidated 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” includes share of profit or loss of equity-method associates and cooperated profit and loss, that is, profit and loss double-accounted for in the managerial accounting.

### **Wholesale Business Unit**

#### *Fiscal Year Ended March 31, 2018 Compared to Fiscal Year Ended March 31, 2017*

Consolidated gross profit decreased by ¥3 billion from ¥776 billion for the fiscal year ended March 31, 2017 to ¥773 billion for the fiscal year ended March 31, 2018. This was primarily due to a decrease in consolidated gross profit related to securities business, which was partially offset by an increase in consolidated gross profit related to leasing business.

General and administrative expenses increased by ¥3 billion from ¥345 billion for the fiscal year ended March 31, 2017 to ¥348 billion for the fiscal year ended March 31, 2018.

Others increased by ¥8 billion from ¥46 billion for the fiscal year ended March 31, 2017 to ¥54 billion for the fiscal year ended March 31, 2018.

As a result, consolidated net business profit increased by ¥2 billion from ¥477 billion for the fiscal year ended March 31, 2017 to ¥479 billion for the fiscal year ended March 31, 2018.

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

Consolidated gross profit increased by ¥27 billion from ¥749 billion for the fiscal year ended March 31, 2016 to ¥776 billion for the fiscal year ended March 31, 2017. This was primarily due to an increase in consolidated gross profit related to leasing business as a result of the inclusion of SMFL Capital Company, Limited, which became a subsidiary of SMFL in April 2016.

General and administrative expenses increased by ¥20 billion from ¥325 billion for the fiscal year ended March 31, 2016 to ¥345 billion for the fiscal year ended March 31, 2017.

Others decreased by ¥2 billion from ¥48 billion for the fiscal year ended March 31, 2016 to ¥46 billion for the fiscal year ended March 31, 2017.

As a result, consolidated net business profit increased by ¥5 billion from ¥472 billion for the fiscal year ended March 31, 2016 to ¥477 billion for the fiscal year ended March 31, 2017.

### **Retail Business Unit**

#### *Fiscal Year Ended March 31, 2018 Compared to Fiscal Year Ended March 31, 2017*

Consolidated gross profit decreased by ¥2 billion from ¥1,314 billion for the fiscal year ended March 31, 2017 to ¥1,312 billion for the fiscal year ended March 31, 2018. Income on loans of SMBC decreased, although consolidated gross profit related to wealth management business and credit card business increased.

General and administrative expenses decreased by ¥13 billion from ¥1,041 billion for the fiscal year ended March 31, 2017 to ¥1,028 billion for the fiscal year ended March 31, 2018.

Others increased by ¥4 billion from ¥12 billion for the fiscal year ended March 31, 2017 to ¥16 billion for the fiscal year ended March 31, 2018.

As a result, consolidated net business profit increased by ¥15 billion from ¥285 billion for the fiscal year ended March 31, 2017 to ¥300 billion for the fiscal year ended March 31, 2018.

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

Consolidated gross profit increased by ¥41 billion from ¥1,273 billion for the fiscal year ended March 31, 2016 to ¥1,314 billion for the fiscal year ended March 31, 2017. This was primarily due to an increase in gross profit of SMBC Nikko Securities, Sumitomo Mitsui Card and SMBC Consumer Finance.

General and administrative expenses increased by ¥40 billion from ¥1,001 billion for the fiscal year ended March 31, 2016 to ¥1,041 billion for the fiscal year ended March 31, 2017.

Others increased by ¥2 billion from ¥10 billion for the fiscal year ended March 31, 2016 to ¥12 billion for the fiscal year ended March 31, 2017.

As a result, consolidated net business profit increased by ¥3 billion from ¥282 billion for the fiscal year ended March 31, 2016 to ¥285 billion for the fiscal year ended March 31, 2017.

### ***International Business Unit***

#### ***Fiscal Year Ended March 31, 2018 Compared to Fiscal Year Ended March 31, 2017***

Consolidated gross profit increased by ¥66 billion from ¥566 billion for the fiscal year ended March 31, 2017 to ¥632 billion for the fiscal year ended March 31, 2018. This was primarily due to an increase in non-asset related income.

General and administrative expenses increased by ¥40 billion from ¥241 billion for the fiscal year ended March 31, 2017 to ¥281 billion for the fiscal year ended March 31, 2018.

Others increased by ¥8 billion from ¥39 billion for the fiscal year ended March 31, 2017 to ¥47 billion for the fiscal year ended March 31, 2018. This was primarily due to an increase in profit of The Bank of East Asia, Limited, which is our equity-method associate, reflecting gains on sale of its subsidiary.

As a result, consolidated net business profit increased by ¥35 billion from ¥363 billion for the fiscal year ended March 31, 2017 to ¥398 billion for the fiscal year ended March 31, 2018.

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

Consolidated gross profit decreased by ¥23 billion from ¥589 billion for the fiscal year ended March 31, 2016 to ¥566 billion for the fiscal year ended March 31, 2017. This was primarily due to a decrease in consolidated gross profit related to commercial banking business of SMBC.

General and administrative expenses increased by ¥4 billion from ¥237 billion for the fiscal year ended March 31, 2016 to ¥241 billion for the fiscal year ended March 31, 2017.

Others increased by ¥63 billion from a loss of ¥24 billion for the fiscal year ended March 31, 2016 to ¥39 billion for the fiscal year ended March 31, 2017. This was because a part of goodwill related to PT Bank Tabungan Pensiunan Nasional Tbk, which is our equity-method associate, was impaired in the previous fiscal year.

As a result, consolidated net business profit increased by ¥35 billion from ¥328 billion for the fiscal year ended March 31, 2016 to ¥363 billion for the fiscal year ended March 31, 2017.

### ***Global Markets Business Unit***

#### ***Fiscal Year Ended March 31, 2018 Compared to Fiscal Year Ended March 31, 2017***

Consolidated gross profit increased by ¥9 billion from ¥347 billion for the fiscal year ended March 31, 2017 to ¥356 billion for the fiscal year ended March 31, 2018. This was primarily due to a nimble portfolio management with a focus on Japanese stocks in the volatile market environment.

General and administrative expenses increased by ¥4 billion from ¥50 billion for the fiscal year ended March 31, 2017 to ¥54 billion for the fiscal year ended March 31, 2018.

Others increased by ¥10 billion from ¥8 billion for the fiscal year ended March 31, 2017 to ¥18 billion for the fiscal year ended March 31, 2018.

As a result, consolidated net business profit increased by ¥15 billion from ¥305 billion for the fiscal year ended March 31, 2017 to ¥320 billion for the fiscal year ended March 31, 2018.

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

Consolidated gross profit decreased by ¥7 billion from ¥354 billion for the fiscal year ended March 31, 2016 to ¥347 billion for the fiscal year ended March 31, 2017. This was primarily due to a decrease in profits from equity index-linked investment trusts.

General and administrative expenses increased by ¥1 billion from ¥49 billion for the fiscal year ended March 31, 2016 to ¥50 billion for the fiscal year ended March 31, 2017.

Others decreased by ¥1 billion from ¥9 billion for the fiscal year ended March 31, 2016 to ¥8 billion for the fiscal year ended March 31, 2017.

As a result, consolidated net business profit decreased by ¥9 billion from ¥314 billion for the fiscal year ended March 31, 2016 to ¥305 billion for the fiscal year ended March 31, 2017.

### **Financial Condition**

#### *Assets*

Our total assets increased by ¥1,024,585 million from ¥191,150,981 million at March 31, 2017 to ¥192,175,566 million at March 31, 2018. The increase was primarily due to increases in cash and deposits with banks and investment securities, despite of the exclusion of all the assets, including loans and advances, of Kansai Urban Banking Corporation (“KUBC”) and THE MINATO BANK, LTD. (“The Minato Bank”), which ceased to be our subsidiaries and became our equity-method associates for the fiscal year ended March 31, 2018.

Our assets at March 31, 2018 and 2017 were as follows.

|                                                                                    | <b>At March 31,</b>  |                     |
|------------------------------------------------------------------------------------|----------------------|---------------------|
|                                                                                    | <b>2018</b>          | <b>2017</b>         |
|                                                                                    | <b>(In millions)</b> |                     |
| Cash and deposits with banks . . . . .                                             | ¥ 54,696,069         | ¥ 47,330,155        |
| Call loans and bills bought . . . . .                                              | 1,881,880            | 1,872,209           |
| Reverse repurchase agreements and cash collateral on securities borrowed . . . . . | 8,491,703            | 8,924,385           |
| Trading assets . . . . .                                                           | 3,169,123            | 3,776,671           |
| Derivative financial instruments . . . . .                                         | 3,885,271            | 4,063,982           |
| Financial assets at fair value through profit or loss . . . . .                    | 1,547,672            | 1,599,093           |
| Investment securities . . . . .                                                    | 20,495,075           | 19,073,937          |
| Loans and advances . . . . .                                                       | 85,129,070           | 95,273,845          |
| Investments in associates and joint ventures . . . . .                             | 730,414              | 675,704             |
| Property, plant and equipment . . . . .                                            | 1,510,132            | 2,686,055           |
| Intangible assets . . . . .                                                        | 835,902              | 1,096,568           |
| Other assets . . . . .                                                             | 4,043,908            | 4,321,724           |
| Current tax assets . . . . .                                                       | 87,961               | 240,385             |
| Deferred tax assets . . . . .                                                      | 19,436               | 81,961              |
| Assets held for sale . . . . .                                                     | 5,651,950            | 134,307             |
| <b>Total assets . . . . .</b>                                                      | <b>¥192,175,566</b>  | <b>¥191,150,981</b> |

### *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, 2018, our loans and advances were ¥85,129,070 million, or 44% of total assets, representing a decrease of ¥10,144,775 million, or 11%, from ¥95,273,845 million at March 31, 2017. The decrease in loans and advances was primarily due to the exclusion of loans and advances made by KUBC and The Minato Bank, and the reclassification of loans and advances made by SMFL to assets held for sale. KUBC and The Minato Bank ceased to be our subsidiaries and became our equity-method associates for the fiscal year ended March 31, 2018 and SMFL will cease to be our consolidated subsidiary and will become our joint venture for the fiscal year ending March 31, 2019. For more information, see “Item 4.B.Business Overview—Description of Operations and Principal Activities.” In addition, decreases in loans and advances of SMBC to the Government of Japan and domestic corporate customers contributed to the decrease in loans and advances.

### *Domestic*

Through SMBC 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,       |                    |
|-----------------------------------------------------------------|--------------------|--------------------|
|                                                                 | 2018               | 2017               |
|                                                                 | (In millions)      |                    |
| Manufacturing . . . . .                                         | ¥ 7,961,620        | ¥ 9,578,147        |
| Agriculture, forestry, fisheries and mining . . . . .           | 145,957            | 174,021            |
| Construction . . . . .                                          | 947,765            | 1,151,989          |
| Transportation, communications and public enterprises . . . . . | 5,424,054          | 5,365,225          |
| Wholesale and retail . . . . .                                  | 5,288,767          | 5,721,005          |
| Finance and insurance . . . . .                                 | 2,777,862          | 2,844,546          |
| Real estate and goods rental and leasing . . . . .              | 9,017,664          | 10,101,846         |
| Services . . . . .                                              | 4,255,228          | 4,885,247          |
| Municipalities . . . . .                                        | 1,000,286          | 1,216,211          |
| Lease financing . . . . .                                       | 14,629             | 2,706,641          |
| Consumer <sup>(1)</sup> . . . . .                               | 16,363,489         | 19,096,755         |
| Others <sup>(2)</sup> . . . . .                                 | 4,633,306          | 5,178,461          |
| Total domestic . . . . .                                        | <u>¥57,830,627</u> | <u>¥68,020,094</u> |

(1) The balance in Consumer mainly consists of housing loans. The housing loan balances amounted to ¥11,482,678 million and ¥13,766,771 million at March 31, 2018 and 2017, 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,       |                    |
|------------------------|--------------------|--------------------|
|                        | 2018               | 2017               |
|                        | (In millions)      |                    |
| Public sector          | ¥ 372,008          | ¥ 299,746          |
| Financial institutions | 4,496,646          | 4,588,001          |
| Commerce and industry  | 21,023,885         | 21,041,905         |
| Lease financing        | 357,660            | 404,658            |
| Others                 | 1,779,101          | 1,836,322          |
| Total foreign          | <u>¥28,029,300</u> | <u>¥28,170,632</u> |

### *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, 2018 Compared to Fiscal Year Ended March 31, 2017*

For the fiscal year ended March 31, 2018, the allowance for loan losses decreased by ¥188,780 million, or 28%, from ¥680,456 million at March 31, 2017 to ¥491,676 million at March 31, 2018. The decrease was primarily due to the exclusion of the allowance for loans and advances made by KUBC and The Minato Bank, which ceased to be our subsidiaries and became our equity-method associates for the fiscal year ended March 31, 2018. The allowance for loans and advances made by SMFL which will cease to be our consolidated subsidiary and will become our joint venture for the fiscal year ending March 31, 2019 was also excluded.

The provision for loan losses decreased by ¥14,834 million from ¥141,457 million for the fiscal year ended March 31, 2017 to ¥126,623 million for the fiscal year ended March 31, 2018. The decrease was primarily due to a decrease in the provision for loan losses reflecting gradual recovery of the Japanese and global economy.

Charge-offs decreased by ¥5,448 million from the previous fiscal year to ¥185,060 million for the fiscal year ended March 31, 2018. Charge-offs of domestic loans and advances increased by ¥4,153 million compared to the previous fiscal year to ¥161,526 million for the fiscal year ended March 31, 2018, primarily due to an increase in charge-offs related to consumer loans. Charge-offs of foreign loans and advances decreased by ¥9,601 million compared to the previous fiscal year to ¥23,534 million for the fiscal year ended March 31, 2018, primarily due to a decrease in charge-offs related to customers from the commerce and industry.

#### *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.

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

|                                                  | For the fiscal year ended March 31, |          |          |
|--------------------------------------------------|-------------------------------------|----------|----------|
|                                                  | 2018                                | 2017     | 2016     |
|                                                  | (In millions)                       |          |          |
| Allowance for loan losses at beginning of period | ¥ 680,456                           | ¥722,717 | ¥793,552 |
| Provision for loan losses                        | 126,623                             | 141,457  | 118,750  |
| Charge-offs:                                     |                                     |          |          |
| Domestic                                         | 161,526                             | 157,373  | 173,431  |
| Foreign                                          | 23,534                              | 33,135   | 20,218   |
| Total                                            | 185,060                             | 190,508  | 193,649  |
| Recoveries:                                      |                                     |          |          |
| Domestic                                         | 9,658                               | 9,852    | 9,477    |
| Foreign                                          | 574                                 | 445      | 871      |
| Total                                            | 10,232                              | 10,297   | 10,348   |
| Net charge-offs                                  | 174,828                             | 180,211  | 183,301  |
| Others <sup>(1)</sup>                            | (140,575)                           | (3,507)  | (6,284)  |
| Allowance for loan losses at end of period       | ¥ 491,676                           | ¥680,456 | ¥722,717 |

(1) Others mainly include the exclusion of the allowance for loans and advances made by KUBC and The Minato Bank, both of which had been our subsidiaries but became our equity-method associates, and the exclusion of the allowance for loans and advances made by SMFL which were reclassified as assets held for sale during the fiscal year ended March 31, 2018. The amount for the fiscal year ended March 31, 2017 and 2016 mainly includes foreign exchange transactions.

### ***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, 2018 and 2017 by domicile and type of industry of the borrowers. At March 31, 2018, gross impaired loans and advances were ¥878,868 million, a decrease of ¥349,820 million from ¥1,228,688 million at March 31, 2017. 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 1.0% at March 31, 2018, a decrease of 0.3 percentage points from 1.3% at March 31, 2017.

|                                                                                      | At March 31,  |           |
|--------------------------------------------------------------------------------------|---------------|-----------|
|                                                                                      | 2018          | 2017      |
|                                                                                      | (In millions) |           |
| <b>Potentially bankrupt, effectively bankrupt and bankrupt (loans and advances):</b> |               |           |
| Domestic:                                                                            |               |           |
| Manufacturing .....                                                                  | ¥ 62,322      | ¥ 106,178 |
| Agriculture, forestry, fisheries and mining .....                                    | 6,369         | 2,250     |
| Construction .....                                                                   | 10,439        | 24,430    |
| Transportation, communications and public enterprises .....                          | 15,494        | 23,692    |
| Wholesale and retail .....                                                           | 74,332        | 104,472   |
| Finance and insurance .....                                                          | 3,021         | 4,135     |
| Real estate and goods rental and leasing .....                                       | 32,634        | 126,179   |
| Services .....                                                                       | 50,858        | 91,943    |
| Lease financing .....                                                                | —             | 7,513     |
| Consumer .....                                                                       | 157,221       | 194,721   |
| Others .....                                                                         | 23,081        | 25,059    |
| Total domestic .....                                                                 | 435,771       | 710,572   |
| Foreign:                                                                             |               |           |
| Financial institutions .....                                                         | 30            | 29        |
| Commerce and industry .....                                                          | 144,975       | 157,227   |
| Lease financing .....                                                                | —             | 11,892    |
| Others .....                                                                         | 22,383        | 23,890    |
| Total foreign .....                                                                  | 167,388       | 193,038   |
| Total .....                                                                          | 603,159       | 903,610   |
| <b>Past due three months or more (loans):</b>                                        |               |           |
| Domestic .....                                                                       | 21,649        | 20,808    |
| Foreign .....                                                                        | —             | 11,449    |
| Total .....                                                                          | 21,649        | 32,257    |
| <b>Restructured (loans):</b>                                                         |               |           |
| Domestic .....                                                                       | 136,582       | 155,100   |
| Foreign .....                                                                        | 17,567        | 25,741    |
| Total .....                                                                          | 154,149       | 180,841   |
| <b>Other impaired (loans and advances):</b>                                          |               |           |
| Domestic .....                                                                       | 93,175        | 103,777   |
| Foreign .....                                                                        | 6,736         | 8,203     |
| Total .....                                                                          | 99,911        | 111,980   |
| Gross impaired loans and advances .....                                              | 878,868       | 1,228,688 |
| Less: Allowance for loan losses for impaired loans and advances .....                | (369,386)     | (532,451) |
| Net impaired loans and advances .....                                                | ¥ 509,482     | ¥ 696,237 |

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 ¥20,495,075 million at March 31, 2018, an increase of ¥1,421,138 million, or 7%, from ¥19,073,937 million at March 31, 2017. The increase in our investment securities was primarily due to an increase 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 ¥372,459 million at March 31, 2018, a decrease of ¥800,960 million, or 68%, from ¥1,173,419 million at March 31, 2017, 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 ¥8,028,936 million of domestic debt instruments at March 31, 2018, an increase of ¥1,859,932 million, or 30%, from ¥6,169,004 million at March 31, 2017. The increase was primarily due to an increase 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 91% of our total Japanese government bonds at March 31, 2018. As for our foreign available-for-sale financial assets, we had ¥6,253,770 million of foreign debt instruments, which was an increase of ¥299,004 million, or 5%, from ¥5,954,766 million at March 31, 2017. 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 bonds issued by other governments and official institutions. Net unrealized losses on our foreign debt instruments amounted to ¥165,863 million at March 31, 2018, as compared to net unrealized losses of ¥128,474 million at March 31, 2017. This was primarily due to a rise in U.S. interest rates. Of our foreign debt instruments, 57% had a maturity of less than five years.

We had ¥5,161,734 million of domestic equity instruments and ¥678,176 million of foreign equity instruments at March 31, 2018. Our domestic equity instruments, which consisted principally of publicly traded Japanese stocks and included common and preferred stocks issued by our customers, increased by ¥44,105 million, or 1%, from ¥5,117,629 million at March 31, 2017. Net unrealized gains on our domestic equity instruments increased by ¥228,469 million, or 8%, from ¥2,696,122 million at March 31, 2017 to ¥2,924,591 million at March 31, 2018. 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 ¥18,909.26 at March 31, 2017 to ¥21,454.30 at March 30, 2018. Net unrealized gains on our foreign equity instruments increased by ¥39,573 million, or 13%, from ¥296,448 million at March 31, 2017 to ¥336,021 million at March 31, 2018, 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, 2018, 2017 and 2016.

| At March 31, 2018                                                        |                   |                           |                            |              |
|--------------------------------------------------------------------------|-------------------|---------------------------|----------------------------|--------------|
|                                                                          | Amortized<br>cost | Gross unrealized<br>gains | Gross unrealized<br>losses | Fair value   |
| (In millions)                                                            |                   |                           |                            |              |
| <b>Held-to-maturity investments:</b>                                     |                   |                           |                            |              |
| Domestic:                                                                |                   |                           |                            |              |
| Japanese government bonds . . . . .                                      | ¥ 372,459         | ¥ 2,138                   | ¥ —                        | ¥ 374,597    |
| Japanese municipal bonds . . . . .                                       | —                 | —                         | —                          | —            |
| Japanese corporate bonds . . . . .                                       | —                 | —                         | —                          | —            |
| Total domestic . . . . .                                                 | 372,459           | 2,138                     | —                          | 374,597      |
| Foreign . . . . .                                                        | —                 | —                         | —                          | —            |
| Total . . . . .                                                          | ¥ 372,459         | ¥ 2,138                   | ¥ —                        | ¥ 374,597    |
| <b>Available-for-sale financial assets:</b>                              |                   |                           |                            |              |
| Domestic:                                                                |                   |                           |                            |              |
| Japanese government bonds . . . . .                                      | ¥ 7,675,028       | ¥ 14,554                  | ¥ 4,279                    | ¥ 7,685,303  |
| Japanese municipal bonds . . . . .                                       | 47,079            | 49                        | 96                         | 47,032       |
| Japanese corporate bonds . . . . .                                       | 295,503           | 1,221                     | 123                        | 296,601      |
| Total domestic debt instruments . . .                                    | 8,017,610         | 15,824                    | 4,498                      | 8,028,936    |
| Equity instruments . . . . .                                             | 2,237,143         | 2,946,737                 | 22,146                     | 5,161,734    |
| Total domestic . . . . .                                                 | 10,254,753        | 2,962,561                 | 26,644                     | 13,190,670   |
| Foreign:                                                                 |                   |                           |                            |              |
| U.S. Treasury and other U.S.<br>government agency bonds . . . . .        | 3,387,109         | 1,723                     | 142,186                    | 3,246,646    |
| Bonds issued by other governments and<br>official institutions . . . . . | 2,192,099         | 4,203                     | 8,852                      | 2,187,450    |
| Mortgage-backed securities . . . . .                                     | 509,104           | 31                        | 20,952                     | 488,183      |
| Other debt instruments . . . . .                                         | 331,321           | 507                       | 337                        | 331,491      |
| Total foreign debt instruments . . . .                                   | 6,419,633         | 6,464                     | 172,327                    | 6,253,770    |
| Equity instruments . . . . .                                             | 342,155           | 340,366                   | 4,345                      | 678,176      |
| Total foreign . . . . .                                                  | 6,761,788         | 346,830                   | 176,672                    | 6,931,946    |
| Total . . . . .                                                          | ¥ 17,016,541      | ¥ 3,309,391               | ¥ 203,316                  | ¥ 20,122,616 |

| At March 31, 2017                                                        |                   |                           |                            |              |  |
|--------------------------------------------------------------------------|-------------------|---------------------------|----------------------------|--------------|--|
|                                                                          | Amortized<br>cost | Gross unrealized<br>gains | Gross unrealized<br>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.<br>government agency bonds . . . . .        | 3,565,748         | 2,352                     | 99,837                     | 3,468,263    |  |
| Bonds issued by other governments and<br>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<br>cost | Gross unrealized<br>gains | Gross unrealized<br>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.<br>government agency bonds . . . . .        | 2,243,096         | 5,237                     | 2,203                      | 2,246,130    |
| Bonds issued by other governments and<br>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 |

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, 2018, 2017 and 2016. 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, 2018                                                 |                         |          |                       |                         |               |            |                         |
|-------------------------------------------------------------------|-------------------------|----------|-----------------------|-------------------------|---------------|------------|-------------------------|
| 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 .. ¥                                    | 2,001 ¥                 | — ¥      | — ¥                   | — ¥                     | — ¥           | 2,001 ¥    | —                       |
| Japanese municipal bonds ....                                     | —                       | —        | —                     | —                       | —             | —          | —                       |
| Japanese corporate bonds ....                                     | —                       | —        | —                     | —                       | —             | —          | —                       |
| Total domestic .....                                              | 2,001                   | —        | —                     | —                       | —             | 2,001      | —                       |
| Foreign .....                                                     | —                       | —        | —                     | —                       | —             | —          | —                       |
| Total .....                                                       | ¥ 2,001 ¥               | — ¥      | — ¥                   | — ¥                     | — ¥           | 2,001 ¥    | —                       |
| <b>Available-for-sale financial assets:</b>                       |                         |          |                       |                         |               |            |                         |
| Domestic:                                                         |                         |          |                       |                         |               |            |                         |
| Japanese government bonds .. ¥                                    | 2,847,250 ¥             | 559 ¥    | 1,353,121 ¥           | 3,720 ¥                 | 4,200,371 ¥   | 4,279      |                         |
| Japanese municipal bonds ....                                     | 964                     | 1        | 31,916                | 95                      | 32,880        | 96         |                         |
| Japanese corporate bonds ....                                     | 6,801                   | 2        | 72,061                | 121                     | 78,862        | 123        |                         |
| Total domestic debt instruments .....                             | 2,855,015               | 562      | 1,457,098             | 3,936                   | 4,312,113     | 4,498      |                         |
| Equity instruments .....                                          | 506,969                 | 22,146   | —                     | —                       | 506,969       | 22,146     |                         |
| Total domestic .....                                              | 3,361,984               | 22,708   | 1,457,098             | 3,936                   | 4,819,082     | 26,644     |                         |
| Foreign:                                                          |                         |          |                       |                         |               |            |                         |
| U.S. Treasury and other U.S. government agency bonds ..           | 1,509,509               | 41,946   | 1,229,979             | 100,240                 | 2,739,488     | 142,186    |                         |
| Bonds issued by other governments and official institutions ..... | 1,039,848               | 739      | 219,608               | 8,113                   | 1,259,456     | 8,852      |                         |
| Mortgage-backed securities ..                                     | 1,124                   | 1        | 482,141               | 20,951                  | 483,265       | 20,952     |                         |
| Other debt instruments .....                                      | 141,058                 | 161      | 17,269                | 176                     | 158,327       | 337        |                         |
| Total foreign debt instruments .....                              | 2,691,539               | 42,847   | 1,948,997             | 129,480                 | 4,640,536     | 172,327    |                         |
| Equity instruments .....                                          | 65,105                  | 4,345    | —                     | —                       | 65,105        | 4,345      |                         |
| Total foreign .....                                               | 2,756,644               | 47,192   | 1,948,997             | 129,480                 | 4,705,641     | 176,672    |                         |
| Total .....                                                       | ¥ 6,118,628 ¥           | 69,900 ¥ | ¥ 3,406,095 ¥         | ¥ 133,416 ¥             | ¥ 9,524,723 ¥ | ¥ 203,316  |                         |

| 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                 | ¥ —                   | ¥ —                     | ¥ 1,427,268 | ¥ 6,153                 |   |
| Japanese municipal bonds . . . .                                      | 68,154                  | 543                     | 2,383                 | 7                       | 70,537      | 550                     |   |
| Japanese corporate bonds . . . .                                      | 126,267                 | 560                     | 2,307                 | 5                       | 128,574     | 565                     |   |
| Total domestic debt instruments . . . . .                             | 1,621,689               | 7,256                   | 4,690                 | 12                      | 1,626,379   | 7,268                   |   |
| Equity instruments . . . . .                                          | 170,399                 | 3,324                   | —                     | —                       | 170,399     | 3,324                   |   |
| Total domestic . . . . .                                              | 1,792,088               | 10,580                  | 4,690                 | 12                      | 1,796,778   | 10,592                  |   |
| Foreign:                                                              |                         |                         |                       |                         |             |                         |   |
| U.S. Treasury and other U.S. government agency bonds . . .            | 1,590,352               | 40,549                  | 685,367               | 59,288                  | 2,275,719   | 99,837                  |   |
| Bonds issued by other governments and official institutions . . . . . | 1,238,536               | 18,587                  | 60,616                | 31                      | 1,299,152   | 18,618                  |   |
| Mortgage-backed securities . . .                                      | 618,451                 | 12,370                  | 10,317                | 240                     | 628,768     | 12,610                  |   |
| Other debt instruments . . . . .                                      | 61,230                  | 350                     | 6,182                 | 256                     | 67,412      | 606                     |   |
| Total foreign debt instruments . . . . .                              | 3,508,569               | 71,856                  | 762,482               | 59,815                  | 4,271,051   | 131,671                 |   |
| Equity instruments . . . . .                                          | 10,105                  | 258                     | —                     | —                       | 10,105      | 258                     |   |
| Total foreign . . . . .                                               | 3,518,674               | 72,114                  | 762,482               | 59,815                  | 4,281,156   | 131,929                 |   |
| Total . . . . . ¥                                                     | 5,310,762               | ¥ 82,694                | ¥ 767,172             | ¥ 59,827                | ¥ 6,077,934 | ¥ 142,521               |   |

| 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 |

### ***Trading Assets***

The following table shows our trading assets at March 31, 2018 and 2017. Our trading assets were ¥3,169,123 million at March 31, 2018, a decrease of ¥607,548 million from ¥3,776,671 million at March 31, 2017. The decrease was primarily due to a decrease in our holdings of Japanese government bonds.

|                                | At March 31,       |                    |
|--------------------------------|--------------------|--------------------|
|                                | 2018               | 2017               |
|                                | (In millions)      |                    |
| Debt instruments . . . . .     | ¥ 2,841,148        | ¥ 3,339,928        |
| Equity instruments . . . . .   | 327,975            | 436,743            |
| Total trading assets . . . . . | <u>¥ 3,169,123</u> | <u>¥ 3,776,671</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, 2018 and 2017. The fair value was ¥1,547,672 million at March 31, 2018, a decrease of ¥51,421 million from ¥1,599,093 million at March 31, 2017. The decrease was primarily due to a decrease in our holdings of debt instruments.

|                                                                       | At March 31,       |                    |
|-----------------------------------------------------------------------|--------------------|--------------------|
|                                                                       | 2018               | 2017               |
|                                                                       | (In millions)      |                    |
| Debt instruments . . . . .                                            | ¥ 1,528,921        | ¥ 1,582,957        |
| Equity instruments . . . . .                                          | 18,751             | 16,136             |
| Total financial assets at fair value through profit or loss . . . . . | <u>¥ 1,547,672</u> | <u>¥ 1,599,093</u> |

### ***Liabilities***

Our total liabilities increased by ¥416,069 million from ¥179,263,698 million at March 31, 2017 to ¥179,679,767 million at March 31, 2018. Although all the liabilities of KUBC and The Minato Bank, which ceased to be our subsidiaries and became our equity-method associates for the fiscal year ended March 31, 2018, were excluded, deposits other than those at KUBC and The Minato Bank increased.

The following table shows our liabilities at March 31, 2018 and 2017.

|                                                                         | At March 31,        |                     |
|-------------------------------------------------------------------------|---------------------|---------------------|
|                                                                         | 2018                | 2017                |
|                                                                         | (In millions)       |                     |
| Deposits . . . . .                                                      | ¥128,461,527        | ¥130,295,290        |
| Call money and bills sold . . . . .                                     | 1,190,929           | 2,088,020           |
| Repurchase agreements and cash collateral on securities lent . . . . .  | 12,022,593          | 9,424,506           |
| Trading liabilities . . . . .                                           | 2,143,899           | 2,071,584           |
| Derivative financial instruments . . . . .                              | 3,498,016           | 3,889,694           |
| Borrowings . . . . .                                                    | 10,652,481          | 12,245,943          |
| Debt securities in issue . . . . .                                      | 10,569,117          | 11,165,623          |
| Provisions . . . . .                                                    | 188,267             | 194,700             |
| Other liabilities . . . . .                                             | 6,882,740           | 7,461,101           |
| Current tax liabilities . . . . .                                       | 55,516              | 79,371              |
| Deferred tax liabilities . . . . .                                      | 397,741             | 320,201             |
| Liabilities directly associated with the assets held for sale . . . . . | 3,616,941           | 27,665              |
| Total liabilities . . . . .                                             | <u>¥179,679,767</u> | <u>¥179,263,698</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.

SMBC'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.

Our deposit balances at March 31, 2018 were ¥128,461,527 million, a decrease of ¥1,833,763 million, or 1%, from ¥130,295,290 million at March 31, 2017, primarily due to a decrease in time deposits at domestic offices, which was partially offset by an increase in demand deposits at domestic offices. The decrease in time deposits was mainly due to the exclusion of time deposits of KUBC and The Minato Bank, which ceased to be our subsidiaries and became our equity-method associates for the fiscal year ended March 31, 2018.

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

|                                      | At March 31,  |              |
|--------------------------------------|---------------|--------------|
|                                      | 2018          | 2017         |
|                                      | (In millions) |              |
| <b>Domestic offices:</b>             |               |              |
| Non-interest-bearing demand deposits | ¥ 20,370,064  | ¥ 18,737,973 |
| Interest-bearing demand deposits     | 49,580,166    | 48,879,089   |
| Deposits at notice                   | 855,978       | 1,066,201    |
| Time deposits                        | 18,185,591    | 22,269,409   |
| Negotiable certificates of deposit   | 5,408,021     | 6,021,236    |
| Others                               | 7,338,619     | 7,290,869    |
| Total domestic offices               | 101,738,439   | 104,264,777  |
| <b>Foreign offices:</b>              |               |              |
| Non-interest-bearing demand deposits | 1,241,450     | 1,115,579    |
| Interest-bearing demand deposits     | 2,574,099     | 2,402,906    |
| Deposits at notice                   | 9,499,686     | 9,264,068    |
| Time deposits                        | 7,469,541     | 7,256,466    |
| Negotiable certificates of deposit   | 5,812,264     | 5,859,702    |
| Others                               | 126,048       | 131,792      |
| Total foreign offices                | 26,723,088    | 26,030,513   |
| Total deposits                       | ¥128,461,527  | ¥130,295,290 |

## 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, 2018, our borrowings were ¥10,652,481 million, a decrease of ¥1,593,462 million, or 13%, from ¥12,245,943 million at March 31, 2017, primarily due to the reclassification of borrowings of SMFL to liabilities directly associated with the assets held for sale during the fiscal year ended March 31, 2018.

At March 31, 2018, our short-term borrowings accounted for 37% of our total borrowings, and our long-term borrowings accounted for 52% of our total borrowings.

The following table shows the balances with respect to our borrowings at March 31, 2018 and 2017.

|                                                         | At March 31,  |              |
|---------------------------------------------------------|---------------|--------------|
|                                                         | 2018          | 2017         |
|                                                         | (In millions) |              |
| Short-term borrowings                                   | ¥ 3,943,140   | ¥ 7,546,496  |
| Long-term borrowings:                                   |               |              |
| Unsubordinated                                          | 5,230,453     | 3,138,582    |
| Subordinated                                            | 265,000       | 284,200      |
| Liabilities associated with securitization transactions | 1,204,722     | 1,169,741    |
| Lease obligations                                       | 9,166         | 106,924      |
| Total borrowings                                        | ¥ 10,652,481  | ¥ 12,245,943 |

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, 2018 were ¥10,569,117 million, a decrease of ¥596,506 million, or 5%, from ¥11,165,623 million at March 31, 2017, primarily due to a decrease in commercial paper, which was partially offset by an increase in bonds reflecting our efforts to expand foreign currency funding sources. The decrease in commercial paper was mainly due to the reclassification of commercial paper of SMFL to liabilities directly associated with the assets held for sale during the fiscal year ended March 31, 2018.

|                                | At March 31,  |              |
|--------------------------------|---------------|--------------|
|                                | 2018          | 2017         |
|                                | (In millions) |              |
| Commercial paper               | ¥ 2,467,645   | ¥ 3,518,346  |
| Bonds                          | 6,490,965     | 5,940,252    |
| Subordinated bonds             | 1,610,507     | 1,707,025    |
| Total debt securities in issue | ¥ 10,569,117  | ¥ 11,165,623 |

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, 2018.

### ***Total Equity***

Our total equity increased by ¥608,516 million from ¥11,887,283 million at March 31, 2017 to ¥12,495,799 million at March 31, 2018, primarily due to increases in retained earnings and other reserves, which were partially offset by a decrease in non-controlling interests resulting from the disposal of subsidiaries and the redemption of preferred securities. The increase in retained earnings mainly reflected our net profit. The increase in other reserves was primarily due to an increase in available-for-sale financial assets reserve reflecting a rise in market prices of domestic equity instruments.

|                                                                                  | At March 31,  |              |
|----------------------------------------------------------------------------------|---------------|--------------|
|                                                                                  | 2018          | 2017         |
|                                                                                  | (In millions) |              |
| Capital stock .....                                                              | ¥ 2,338,743   | ¥ 2,337,896  |
| Capital surplus .....                                                            | 863,505       | 864,052      |
| Retained earnings .....                                                          | 5,149,193     | 4,609,496    |
| Other reserves .....                                                             | 2,324,349     | 2,134,042    |
| Treasury stock .....                                                             | (12,493)      | (12,913)     |
| Equity attributable to shareholders of Sumitomo Mitsui Financial Group, Inc. . . | 10,663,297    | 9,932,573    |
| Non-controlling interests .....                                                  | 1,232,980     | 1,505,001    |
| Equity attributable to other equity instruments holders .....                    | 599,522       | 449,709      |
| Total equity .....                                                               | ¥ 12,495,799  | ¥ 11,887,283 |

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.

## 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. For reporting under the FIEA and Japanese banking regulations, we prepare our annual financial results in accordance with 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<br>March 31, 2018 |            |
|-------------------------------------------------------|----------------------------------------------------|------------|
|                                                       | Total equity                                       | Net profit |
|                                                       | (In millions)                                      |            |
| IFRS .....                                            | ¥ 12,495,799                                       | ¥ 889,598  |
| Differences arising from different accounting for:    |                                                    |            |
| 1. Scope of consolidation .....                       | 129,045                                            | 1,644      |
| 2. Derivative financial instruments .....             | 104,938                                            | 20,650     |
| 3. Investment securities .....                        | (355,744)                                          | (68,792)   |
| 4. Loans and advances .....                           | 61,241                                             | 33,508     |
| 5. Investments in associates and joint ventures ..... | (61,761)                                           | 1,612      |
| 6. Property, plant and equipment .....                | (11,439)                                           | (984)      |
| 7. Lease accounting .....                             | 3,535                                              | 515        |
| 8. Defined benefit plans .....                        | 65,069                                             | 13,233     |
| 9. Deferred tax assets .....                          | (84,621)                                           | (35,051)   |
| 10. Foreign currency translation .....                | —                                                  | (12,664)   |
| 11. Classification of equity and liability .....      | (603,528)                                          | (14,062)   |
| Others .....                                          | (128,865)                                          | 15,216     |
| Tax effect of the above .....                         | (777)                                              | (6,097)    |
| Japanese GAAP .....                                   | ¥ 11,612,892                                       | ¥ 838,326  |

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. The effects of hedge accounting under Japanese GAAP have therefore been reversed under IFRS, except for hedge accounting for net investments in foreign operations which was adopted on April 1, 2017.

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 SMBC 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 SMBC 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 decreased by ¥1,833,763 million, or 1%, from ¥130,295,290 million at March 31, 2017 to ¥128,461,527 million at March 31, 2018. The balance of deposits at March 31, 2018 exceeded the balance of loans and advances by ¥43,332,457 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 66%, 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,  |              |
|------------------------------|---------------|--------------|
|                              | 2018          | 2017         |
|                              | (In millions) |              |
| Loans and advances . . . . . | ¥ 85,129,070  | ¥ 95,273,845 |
| Deposits . . . . .           | 128,461,527   | 130,295,290  |

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. SMBC's Treasury Unit actively monitors the movement of interest rates and maturity profile of its bond portfolio as part of SMBC'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 the Company by Moody's, S&P and Fitch at May 31, 2018:

| At May 31, 2018 |         |            |           |         |            |           |         |            |
|-----------------|---------|------------|-----------|---------|------------|-----------|---------|------------|
| 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 SMBC by Moody's, S&P and Fitch at May 31, 2018:

| At May 31, 2018 |         |            |           |         |            |           |         |            |
|-----------------|---------|------------|-----------|---------|------------|-----------|---------|------------|
| 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 at least 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 the Company and SMBC for the three months ended March 31, 2018. Each figure is calculated based on our financial statements prepared in accordance with Japanese GAAP, as required by the FSA's LCR guidelines.

|                              | <b>For the three months<br/>ended March 31, 2018<sup>(1)</sup></b> |
|------------------------------|--------------------------------------------------------------------|
| SMFG (consolidated) .....    | 127.7%                                                             |
| SMBC (consolidated) .....    | 131.4%                                                             |
| SMBC (nonconsolidated) ..... | 133.7%                                                             |

(1) Under the FSA's LCR guidelines, LCR is set as the three-month average of the daily LCR for the three months ended March 31, 2018, which is calculated by dividing the balance of high-quality liquid assets by the total net cash outflows on a daily basis 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 SMBC 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 was also 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 0.75% 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.

On December 7, 2017, the GHOS endorsed the outstanding Basel III regulatory reforms. For further details regarding the finalized Basel III reforms, see "Item 4.B. Business Overview—Regulations in Japan—Regulations Regarding Capital Adequacy and Liquidity—Capital Adequacy Requirement."

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.

On December 7, 2017, the definition and requirements of the leverage ratio were revised as part of the finalized Basel III reforms, under which the leverage ratio will be based on a Tier 1 definition of capital and the minimum leverage ratio will be 3%. Under the finalized Basel III reforms, G-SIBs are required to meet a leverage ratio buffer, which will take the form of a Tier 1 capital buffer set at 50% of the applicable G-SIB capital surcharge.

The table below presents our risk-weighted capital ratios, total capital, risk-weighted assets and leverage ratio under Japanese GAAP at March 31, 2018, based on the Basel III rules.

|                                                                                               | <b>At March 31, 2018</b><br><b>(In billions, except percentages)</b> |
|-----------------------------------------------------------------------------------------------|----------------------------------------------------------------------|
| <b>SMFG Consolidated:</b>                                                                     |                                                                      |
| Total risk-weighted capital ratio .....                                                       | 19.36%                                                               |
| Tier 1 risk-weighted capital ratio .....                                                      | 16.69%                                                               |
| Common Equity Tier 1 risk-weighted capital ratio .....                                        | 14.50%                                                               |
| Total capital (Common Equity Tier 1 capital + Additional Tier 1 capital + Tier 2 capital) ... | ¥ 12,304.1                                                           |
| Tier 1 capital (Common Equity Tier 1 capital + Additional Tier 1 capital) .....               | 10,610.2                                                             |
| Common Equity Tier 1 capital .....                                                            | 9,217.4                                                              |
| Risk-weighted assets .....                                                                    | 63,540.3                                                             |
| The amount of minimum total capital requirements <sup>(1)</sup> .....                         | 5,083.2                                                              |
| Leverage ratio .....                                                                          | 5.01%                                                                |

(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 were fully phased out on 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 applied mainly to the calculation of Common Equity Tier 1 capital in the form of a deduction. Such regulatory adjustments were 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 are being reduced in annual 10% increments and will be fully phased out by March 31, 2022.

At March 31, 2018, our consolidated total capital was ¥12,304 billion, Tier 1 capital was ¥10,610 billion, and Common Equity Tier 1 capital was ¥9,217 billion. Our total risk-weighted assets at March 31, 2018 were ¥63,540 billion.

On a consolidated basis, our total risk-weighted capital ratio was 19.36%, Tier 1 risk-weighted capital ratio was 16.69%, Common Equity Tier 1 risk-weighted capital ratio was 14.50% and leverage ratio was 5.01% at March 31, 2018.

Our capital position and SMBC'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 have been fully counted as Common Equity Tier 1 capital since 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 SMBC.

In addition, our capital position and SMBC'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, total capital, risk-weighted assets and leverage ratio of SMBC at March 31, 2018 on a consolidated and nonconsolidated basis.

|                                                                                                 | <b>At March 31, 2018</b><br><b>(In billions, except percentages)</b> |
|-------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|
| <b>SMBC Consolidated:</b>                                                                       |                                                                      |
| Total risk-weighted capital ratio . . . . .                                                     | 21.14%                                                               |
| Tier 1 risk-weighted capital ratio . . . . .                                                    | 18.22%                                                               |
| Common Equity Tier 1 risk-weighted capital ratio . . . . .                                      | 15.29%                                                               |
| Total capital (Common Equity Tier 1 capital + Additional Tier 1 capital + Tier 2 capital) . . . | ¥ 10,931.1                                                           |
| Tier 1 capital (Common Equity Tier 1 capital + Additional Tier 1 capital) . . . . .             | 9,423.7                                                              |
| Common Equity Tier 1 capital . . . . .                                                          | 7,908.7                                                              |
| Risk-weighted assets . . . . .                                                                  | 51,707.5                                                             |
| The amount of minimum total capital requirements <sup>(1)</sup> . . . . .                       | 4,136.6                                                              |
| Leverage ratio . . . . .                                                                        | 4.84%                                                                |
| <b>SMBC Nonconsolidated:</b>                                                                    |                                                                      |
| Total risk-weighted capital ratio . . . . .                                                     | 21.11%                                                               |
| Tier 1 risk-weighted capital ratio . . . . .                                                    | 18.11%                                                               |
| Common Equity Tier 1 risk-weighted capital ratio . . . . .                                      | 15.07%                                                               |
| Total capital (Common Equity Tier 1 capital + Additional Tier 1 capital + Tier 2 capital) . . . | ¥ 10,346.1                                                           |
| Tier 1 capital (Common Equity Tier 1 capital + Additional Tier 1 capital) . . . . .             | 8,875.3                                                              |
| Common Equity Tier 1 capital . . . . .                                                          | 7,384.9                                                              |
| Risk-weighted assets . . . . .                                                                  | 49,001.9                                                             |
| The amount of minimum total capital requirements <sup>(1)</sup> . . . . .                       | 3,920.1                                                              |

(1) The amount of minimum total capital requirements is calculated by multiplying risk-weighted assets by 8%.

Our securities subsidiary in Japan, SMBC Nikko Securities is 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, 2018, the capital adequacy ratio was 446.5% for SMBC Nikko Securities, and sufficiently above 140%, below which level it 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, 2018. However, there are certain research and development activities 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, 2018 and 2017.

|                                                                            | At March 31,       |                    |
|----------------------------------------------------------------------------|--------------------|--------------------|
|                                                                            | 2018               | 2017               |
|                                                                            | (In millions)      |                    |
| Loan commitments .....                                                     | ¥60,107,128        | ¥62,357,210        |
| Financial guarantees and other credit-related contingent liabilities ..... | 8,426,245          | 7,924,711          |
| Total .....                                                                | <u>¥68,533,373</u> | <u>¥70,281,921</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 SMBC 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, 2018.

| At March 31, 2018                               |                            |                                        |                                          |                         |                      |
|-------------------------------------------------|----------------------------|----------------------------------------|------------------------------------------|-------------------------|----------------------|
|                                                 | Due in one year<br>or less | Due from<br>one year to<br>three years | Due from<br>three years to<br>five years | Due after<br>five years | Total <sup>(1)</sup> |
|                                                 | (In millions)              |                                        |                                          |                         |                      |
| Time deposits . . . . .                         | ¥ 21,663,526               | ¥ 2,681,152                            | ¥ 652,130                                | ¥ 644,395               | ¥ 25,641,203         |
| Negotiable certificate of<br>deposits . . . . . | 10,760,779                 | 427,726                                | 31,780                                   | 0                       | 11,220,285           |
| Borrowings . . . . .                            | 7,262,141                  | 601,326                                | 652,481                                  | 2,126,169               | 10,642,117           |
| Debt securities in issue . . . . .              | 3,357,935                  | 1,818,271                              | 2,185,578                                | 3,227,737               | 10,589,521           |
| Capital (finance) lease<br>obligation . . . . . | 2,567                      | 2,999                                  | 1,665                                    | 3,086                   | 10,317               |
| Operating lease obligation . . . . .            | 42,329                     | 73,930                                 | 55,368                                   | 121,419                 | 293,046              |
| Purchase obligation <sup>(2)</sup> . . . . .    | 33,442                     | 20,934                                 | 5,735                                    | 0                       | 60,111               |
| Total . . . . .                                 | ¥ 43,122,719               | ¥ 5,626,338                            | ¥ 3,584,737                              | ¥ 6,122,806             | ¥ 58,456,600         |

(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 goods or services of construction and information technology that are binding on us for the payment of more than ¥100 million.

## 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 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 28, 2018, the following directors held the indicated positions with us:

| <b>Name<br/>(Date of birth)</b>      | <b>Current positions and<br/>principal outside positions</b>                                          | <b>Business experience</b> |                                                                                       |
|--------------------------------------|-------------------------------------------------------------------------------------------------------|----------------------------|---------------------------------------------------------------------------------------|
| Koichi Miyata<br>(November 16, 1953) | Chairman of the Board of the Company                                                                  | April 1976                 | Joined Mitsui Bank                                                                    |
|                                      |                                                                                                       | June 2003                  | Executive Officer of SMBC                                                             |
|                                      | Chairman of the Board of SMBC                                                                         | October 2006               | Managing Executive Officer of SMBC                                                    |
|                                      |                                                                                                       | April 2009                 | Director and Senior Managing Executive Officer of SMBC                                |
|                                      |                                                                                                       | 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 SMBC                                                                      |
|                                      |                                                                                                       | April 2017                 | Chairman of the Board of the Company (to present)                                     |
|                                      |                                                                                                       |                            | Chairman of the Board of SMBC (to present)                                            |
| Takeshi Kunibe<br>(March 8, 1954)    | Director President of the Company<br>(Representative Corporate Executive Officer)                     | April 1976                 | Joined Sumitomo Bank                                                                  |
|                                      |                                                                                                       | June 2003                  | Executive Officer of SMBC                                                             |
|                                      | Group Chief Executive Officer, or CEO                                                                 | October 2006               | Managing Executive Officer of SMBC                                                    |
|                                      |                                                                                                       | April 2007                 | Managing Executive Officer of the Company                                             |
|                                      |                                                                                                       | June 2007                  | Director of the Company                                                               |
|                                      |                                                                                                       | April 2009                 | Director and Senior Managing Executive Officer of SMBC                                |
|                                      |                                                                                                       | April 2011                 | President and Chief Executive Officer of SMBC                                         |
|                                      |                                                                                                       | April 2017                 | President of the Company                                                              |
|                                      |                                                                                                       |                            | Resigned as Director of SMBC                                                          |
|                                      |                                                                                                       | June 2017                  | Director President of the Company (to present)                                        |
| Makoto Takashima<br>(March 31, 1958) | Director of the Company                                                                               | April 1982                 | Joined Sumitomo Bank                                                                  |
|                                      |                                                                                                       | April 2009                 | Executive Officer of SMBC                                                             |
|                                      | President of SMBC                                                                                     | April 2012                 | Managing Executive Officer of SMBC                                                    |
|                                      |                                                                                                       | April 2014                 | Senior Managing Executive Officer of SMBC                                             |
|                                      |                                                                                                       | December 2016              | Director and Senior Managing Executive Officer of SMBC                                |
|                                      |                                                                                                       | April 2017                 | President of SMBC (to present)                                                        |
|                                      |                                                                                                       | June 2017                  | Director of the Company (to present)                                                  |
| Kozo Ogino<br>(May 9, 1958)          | Director Deputy President and Corporate Executive Officer of the Company                              | April 1981                 | Joined Mitsui Bank                                                                    |
|                                      |                                                                                                       | April 2010                 | Executive Officer of SMBC                                                             |
|                                      | Group Chief Risk Officer, or CRO                                                                      | April 2011                 | Managing Executive Officer of SMBC                                                    |
|                                      |                                                                                                       | 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                                                               |
|                                      |                                                                                                       | April 2014                 | Director and Senior Managing Executive Officer of SMBC                                |
|                                      | Director and Deputy President of SMBC                                                                 | April 2017                 | Director and Deputy President of the Company                                          |
|                                      |                                                                                                       |                            | Director and Deputy President of SMBC (to present)                                    |
|                                      |                                                                                                       | June 2017                  | Director Deputy President and Corporate Executive Officer of the Company (to present) |

| <b>Name<br/>(Date of birth)</b>        | <b>Current positions and<br/>principal outside positions</b>                                                                                              | <b>Business experience</b> |                                                                                       |
|----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|---------------------------------------------------------------------------------------|
| Jun Ohta<br>(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 SMBC                                                             |
|                                        | Group Chief Financial Officer, or CFO, and Group Chief Strategy Officer, or CSO                                                                           | April 2012                 | Managing Executive Officer of SMBC                                                    |
|                                        |                                                                                                                                                           | April 2013                 | Managing Executive Officer of the Company                                             |
|                                        | Officer in charge of Public Relations Department, Corporate Planning Department, Financial Accounting Department and Subsidiaries & Affiliates Department | April 2014                 | Senior Managing Executive Officer of the Company                                      |
|                                        |                                                                                                                                                           |                            | Senior Managing Executive Officer of SMBC                                             |
|                                        | Director and Deputy President of SMBC                                                                                                                     | June 2014                  | Director of the Company                                                               |
|                                        |                                                                                                                                                           | April 2015                 | Director and Senior Managing Executive Officer of SMBC                                |
|                                        |                                                                                                                                                           | April 2017                 | Director and Deputy President of the Company                                          |
|                                        |                                                                                                                                                           |                            | Resigned as Director of SMBC                                                          |
|                                        |                                                                                                                                                           | June 2017                  | Director Deputy President and Corporate Executive Officer of the Company (to present) |
| Katsunori Tanizaki<br>(April 12, 1957) | Director Senior Managing Corporate Executive Officer of the Company                                                                                       | April 1982                 | Joined Sumitomo Bank                                                                  |
|                                        |                                                                                                                                                           | April 2010                 | Executive Officer of SMBC                                                             |
|                                        | Group Chief Information Officer, or CIO, and Group Chief Digital Innovation Officer, or CDIO                                                              | April 2011                 | General Manager of IT Planning Department of the Company                              |
|                                        |                                                                                                                                                           | April 2013                 | Managing Executive Officer of SMBC                                                    |
|                                        | Officer in charge of IT Planning Department, IT Innovation Department, Data Management Department and Operations Planning Department                      | April 2015                 | Senior Managing Executive Officer of the Company                                      |
|                                        |                                                                                                                                                           |                            | Director and Senior Managing Executive Officer of SMBC (to present)                   |
|                                        | Director and Senior Managing Executive Officer of SMBC                                                                                                    | June 2015                  | Director of the Company                                                               |
|                                        |                                                                                                                                                           | April 2017                 | Director and Senior Managing Executive Officer of the Company                         |
| Toshikazu Yaku<br>(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 SMBC                                                             |
|                                        |                                                                                                                                                           | April 2014                 | Managing Executive Officer of SMBC                                                    |
|                                        | 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 SMBC                                       |
|                                        | Director and Senior Managing Executive Officer of SMBC                                                                                                    | April 2017                 | Senior Managing Executive Officer of the Company                                      |
|                                        |                                                                                                                                                           |                            | Director and Senior Managing Executive Officer of SMBC (to present)                   |
|                                        |                                                                                                                                                           | June 2017                  | Director Senior Managing Corporate Executive Officer of the Company (to present)      |

| <b>Name<br/>(Date of birth)</b>                       | <b>Current positions and<br/>principal outside positions</b>                                                         | <b>Business experience</b> |                                                                                                                                     |
|-------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|----------------------------|-------------------------------------------------------------------------------------------------------------------------------------|
| Toshiyuki Teramoto<br>(September 15, 1958)            | Director of the Company<br>Corporate Auditor of SMBC                                                                 | April 1981                 | Joined Mitsui Bank                                                                                                                  |
|                                                       |                                                                                                                      | April 2008                 | Executive Officer of SMBC                                                                                                           |
|                                                       |                                                                                                                      | April 2011                 | Managing Executive Officer of SMBC                                                                                                  |
|                                                       |                                                                                                                      | April 2014                 | Director and Senior Managing Executive Officer of SMBC                                                                              |
|                                                       |                                                                                                                      | April 2015                 | Senior Managing Executive Officer of the Company                                                                                    |
|                                                       |                                                                                                                      | June 2015                  | Director of the Company                                                                                                             |
|                                                       |                                                                                                                      | April 2016                 | Director of SMBC                                                                                                                    |
|                                                       |                                                                                                                      | June 2016                  | Standing Corporate Auditor of the Company<br>Corporate Auditor of SMBC (to present)                                                 |
|                                                       |                                                                                                                      | June 2017                  | Director of the Company (to present)                                                                                                |
|                                                       |                                                                                                                      |                            |                                                                                                                                     |
| Toru Mikami<br>(August 27, 1960)                      | Director of the Company                                                                                              | April 1984                 | Joined Sumitomo Bank                                                                                                                |
|                                                       |                                                                                                                      | April 2006                 | General Manager of Legal Department of SMBC                                                                                         |
|                                                       |                                                                                                                      | April 2013                 | Co-General Manager of General Affairs Department of the Company                                                                     |
|                                                       |                                                                                                                      | April 2015                 | Senior Manager of Head Office of SMBC                                                                                               |
|                                                       |                                                                                                                      | June 2015                  | Standing Corporate Auditor of the Company                                                                                           |
|                                                       |                                                                                                                      | June 2017                  | Director of the Company (to present)                                                                                                |
| Tetsuya Kubo<br>(September 24, 1953)                  | Director of the Company<br>Representative Director, Chairman of SMBC Nikko Securities Inc. ("SMBC Nikko Securities") | April 1976                 | Joined Sumitomo Bank                                                                                                                |
|                                                       |                                                                                                                      | June 2003                  | Executive Officer of SMBC                                                                                                           |
|                                                       |                                                                                                                      | July 2006                  | Managing Executive Officer of SMBC                                                                                                  |
|                                                       |                                                                                                                      | April 2008                 | Managing Executive Officer of the Company                                                                                           |
|                                                       |                                                                                                                      | April 2009                 | Senior Managing Executive Officer of the Company<br>Director and Senior Managing Executive Officer of SMBC                          |
|                                                       |                                                                                                                      | April 2011                 | Deputy President and Executive Officer of the Company<br>Director and Deputy President of SMBC<br>Director of SMBC Nikko Securities |
|                                                       |                                                                                                                      | June 2011                  | Director of the Company                                                                                                             |
|                                                       |                                                                                                                      | March 2013                 | Resigned as Director of the Company<br>Resigned as Director of SMBC                                                                 |
|                                                       |                                                                                                                      | 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)                                                                                                |
|                                                       |                                                                                                                      |                            |                                                                                                                                     |
|                                                       |                                                                                                                      |                            |                                                                                                                                     |
|                                                       |                                                                                                                      |                            |                                                                                                                                     |
| Masayuki Matsumoto <sup>(1)</sup><br>(April 14, 1944) | Director of the Company<br>Special Advisor of Central Japan Railway Company                                          | April 1967                 | Joined the Japanese National Railways                                                                                               |
|                                                       |                                                                                                                      | April 1987                 | Joined Central Japan Railway Company                                                                                                |
|                                                       |                                                                                                                      | June 2004                  | President and Representative Director of Central Japan Railway Company                                                              |
|                                                       |                                                                                                                      | April 2010                 | Vice Chairman and Representative Director of Central Japan Railway Company                                                          |
|                                                       |                                                                                                                      | January 2011               | Resigned as Director of Central Japan Railway Company                                                                               |
|                                                       |                                                                                                                      | January 2011               | President of Japan Broadcasting Corporation                                                                                         |
|                                                       |                                                                                                                      | January 2014               | Retired from Japan Broadcasting Corporation                                                                                         |
|                                                       |                                                                                                                      | April 2014                 | Special Advisor of Central Japan Railway Company (to present)                                                                       |
|                                                       |                                                                                                                      | June 2015                  | Director of SMBC                                                                                                                    |
|                                                       |                                                                                                                      | June 2017                  | Director of the Company (to present)<br>Retired as Director of SMBC                                                                 |

| <b>Name<br/>(Date of birth)</b>                        | <b>Current positions and<br/>principal outside positions</b>         | <b>Business experience</b> |                                                                                                    |
|--------------------------------------------------------|----------------------------------------------------------------------|----------------------------|----------------------------------------------------------------------------------------------------|
| Arthur M. Mitchell <sup>(1)</sup><br>(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)                              |
| Shozo Yamazaki <sup>(1)</sup><br>(September 12, 1948)  | Director of the Company                                              | June 2015                  | Director of the Company (to present)                                                               |
|                                                        |                                                                      | 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                                                   |
|                                                        |                                                                      | June 2017                  | Director of the Company (to present)                                                               |
| Masaharu Kohno <sup>(1)</sup><br>(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)                                                               |
| Yoshinobu Tsutsui <sup>(1)</sup><br>(January 30, 1954) | Director of the Company<br>Chairman of Nippon Life Insurance Company | April 1977                 | Joined 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                                                         |
|                                                        |                                                                      | June 2017                  | Director of the Company (to present)                                                               |
|                                                        |                                                                      | April 2018                 | Chairman of Nippon Life Insurance Company (to present)                                             |
|                                                        |                                                                      |                            |                                                                                                    |

| <b>Name<br/>(Date of birth)</b>                     | <b>Current positions and<br/>principal outside positions</b>                                                                                                                           | <b>Business experience</b> |                                                                                                                                             |
|-----------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|
| Katsuyoshi Shinbo <sup>(1)</sup><br>(April 8, 1955) | Director of the Company                                                                                                                                                                | 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 SMBC                                                                                                                   |
|                                                     |                                                                                                                                                                                        | June 2017                  | Director of the Company (to present)                                                                                                        |
|                                                     |                                                                                                                                                                                        |                            | Resigned as Corporate Auditor of SMBC                                                                                                       |
| Eriko Sakurai <sup>(1)</sup><br>(November 16, 1960) | Director of the Company<br>Chairman and Chief Executive Officer of<br>Dow Corning Toray Co., Ltd.<br>President and Representative Director of<br>Dow Silicones Holding Japan Co., Ltd. | June 1987                  | Joined Dow Corning Corporation                                                                                                              |
|                                                     |                                                                                                                                                                                        | May 2008                   | Director of Dow Corning Toray Co., Ltd.                                                                                                     |
|                                                     |                                                                                                                                                                                        | March 2009                 | Chairman and Chief Executive Officer of Dow Corning Toray Co., Ltd. (to present)                                                            |
|                                                     |                                                                                                                                                                                        | May 2011                   | Regional President -Japan/Korea of Dow Corning Corporation                                                                                  |
|                                                     |                                                                                                                                                                                        | February 2015              | President and Representative Director of Dow Corning Holding Japan Co., Ltd. (currently Dow Silicones 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 28, 2018, the following corporate executive officers held the indicated positions with us:

| <b>Name<br/>(Date of birth)</b>         | <b>Current positions and<br/>principal outside positions</b>                                                                                                 | <b>Business experience</b>           |                                                                                 |
|-----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|---------------------------------------------------------------------------------|
| Takeshi Kunibe<br>(March 8, 1954)       | See “Directors” under this Item 6.A.                                                                                                                         | See “Directors” under this Item 6.A. |                                                                                 |
| Kozo Ogino<br>(May 9, 1958)             | See “Directors” under this Item 6.A.                                                                                                                         | See “Directors” under this Item 6.A. |                                                                                 |
| Manabu Narita<br>(March 29, 1959)       | Deputy President and Corporate Executive<br>Officer of the Company<br><br>Director and Deputy President of SMBC<br><br>Head of Wholesale Business Unit       | April 1981                           | Joined Sumitomo Bank                                                            |
|                                         |                                                                                                                                                              | April 2008                           | Executive Officer of SMBC                                                       |
|                                         |                                                                                                                                                              | April 2011                           | Managing Executive Officer of SMBC                                              |
|                                         |                                                                                                                                                              | 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<br>SMBC                       |
|                                         |                                                                                                                                                              | April 2015                           | Senior Managing Executive Officer of SMBC                                       |
|                                         |                                                                                                                                                              | March 2017                           | Director and Senior Managing Executive Officer of<br>SMBC                       |
|                                         |                                                                                                                                                              | April 2017                           | Deputy President and Executive Officer of the<br>Company                        |
|                                         |                                                                                                                                                              |                                      | Director and Deputy President of SMBC (to<br>present)                           |
|                                         |                                                                                                                                                              | June 2017                            | Deputy President and Corporate Executive Officer<br>of the Company (to present) |
| Jun Ohta<br>(February 12, 1958)         | See “Directors” under this Item 6.A.                                                                                                                         | See “Directors” under this Item 6.A. |                                                                                 |
| Katsunori Tanizaki<br>(April 12, 1957)  | See “Directors” under this Item 6.A.                                                                                                                         | See “Directors” under this Item 6.A. |                                                                                 |
| Toshikazu Yaku<br>(March 3, 1962)       | See “Directors” under this Item 6.A.                                                                                                                         | See “Directors” under this Item 6.A. |                                                                                 |
| Masahiko Oshima<br>(September 13, 1960) | Senior Managing Corporate Executive<br>Officer of the Company<br><br>Senior Managing Executive Officer of<br>SMBC<br><br>Head of International Business Unit | April 1984                           | Joined Mitsui Bank                                                              |
|                                         |                                                                                                                                                              | April 2012                           | Executive Officer of SMBC                                                       |
|                                         |                                                                                                                                                              | April 2014                           | Managing Executive Officer of SMBC                                              |
|                                         |                                                                                                                                                              | March 2017                           | Director and Managing Executive Officer of SMBC                                 |
|                                         |                                                                                                                                                              | April 2017                           | Director and Senior Managing Executive Officer of<br>SMBC                       |
|                                         |                                                                                                                                                              | April 2018                           | Senior Managing Corporate Executive Officer of<br>the Company (to present)      |
|                                         |                                                                                                                                                              |                                      | Senior Managing Executive Officer of SMBC (to<br>present)                       |

| <b>Name<br/>(Date of birth)</b>        | <b>Current positions and<br/>principal outside positions</b> | <b>Business experience</b> |                                                                                                                                   |
|----------------------------------------|--------------------------------------------------------------|----------------------------|-----------------------------------------------------------------------------------------------------------------------------------|
| Naoki Tamura<br>(July 9, 1961)         | Senior Managing Corporate Executive Officer of the Company   | April 1984                 | Joined Sumitomo Bank                                                                                                              |
|                                        | Senior Managing Executive Officer of SMBC                    | April 2012                 | Co-General Manager of Corporate Risk Management Department of the Company<br>Executive Officer of SMBC                            |
|                                        | Head of Retail Business Unit                                 | April 2015                 | Managing Executive Officer of SMBC                                                                                                |
|                                        |                                                              | April 2017                 | Managing Executive Officer of the Company                                                                                         |
|                                        |                                                              | April 2018                 | Senior Managing Corporate Executive Officer of the Company (to present)                                                           |
|                                        |                                                              |                            | Senior Managing Executive Officer of SMBC (to present)                                                                            |
| Hiroshi Munemasa<br>(February 1, 1962) | Senior Managing Corporate Executive Officer of the Company   | April 1985                 | Joined Sumitomo Bank                                                                                                              |
|                                        | Senior Managing Executive Officer of SMBC                    | April 2013                 | Executive Officer of SMBC                                                                                                         |
|                                        |                                                              | April 2015                 | Managing Executive Officer of SMBC                                                                                                |
|                                        | Head of Global Markets Business Unit                         | April 2017                 | Managing Executive Officer of the Company                                                                                         |
|                                        |                                                              | June 2017                  | Managing Corporate Executive Officer of the Company                                                                               |
|                                        |                                                              | April 2018                 | Senior Managing Corporate Executive Officer of the Company (to present)<br>Senior Managing Executive Officer of SMBC (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

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. The following provides information before and after the transition.

Before the transition, compensation for each individual director and corporate auditor 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 SMBC, we had voluntarily formed a compensation committee in which an outside director served as the chairman of the committee.

After the transition, the compensation committee is responsible for establishing 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 in accordance with this policy. For more information, see "Item 6.C. Board Practices."

The aggregate amounts of compensation paid by us during the fiscal year ended March 31, 2018 to our directors, corporate auditors and corporate executive officers were ¥586 million, ¥44 million and ¥656 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, 2018:

| Director               | Compensation     |                       |                                               |                    |       |
|------------------------|------------------|-----------------------|-----------------------------------------------|--------------------|-------|
|                        | Aggregate amount | Paid by               | Annual salary<br>(In millions) <sup>(1)</sup> | Stock compensation | Bonus |
| Koichi Miyata .....    | ¥ 141            | SMFG                  | ¥ 40                                          | ¥ 11               | ¥ 19  |
|                        |                  | SMBC                  | 40                                            | 9                  | 19    |
| Takeshi Kunibe .....   | ¥ 147            | SMFG                  | ¥ 86                                          | ¥ 18               | ¥ 39  |
|                        |                  | SMBC                  | —                                             | 2                  | —     |
| Makoto Takashima ..... | ¥ 149            | SMFG                  | ¥ 10                                          | ¥ —                | ¥ —   |
|                        |                  | SMBC                  | 71                                            | 28                 | 39    |
| Jun Ohta .....         | ¥ 101            | SMFG                  | ¥ 61                                          | ¥ 11               | ¥ 27  |
|                        |                  | SMBC                  | —                                             | 0                  | —     |
| Tetsuya Kubo .....     | ¥ 126            | SMFG                  | ¥ 14                                          | ¥ —                | ¥ —   |
|                        |                  | SMBC Nikko Securities | 54                                            | —                  | 58    |

(1) Amounts less than one million yen have been truncated.

Prior to the revision of our executive compensation policy discussed below, we 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 our shareholders.

On July 10, 2017, our compensation committee resolved to revise our executive compensation policy and to introduce new stock compensation plans that utilize restricted stock, while discontinuing the issuance of new stock options. The plans allot shares of restricted stock to directors (excluding outside directors), corporate

executive officers, and executive officers of SMFG and directors (excluding outside directors), executive officers and corporate auditors (excluding outside corporate auditors), etc. of SMBC, in order to (a) provide more appropriate incentives for executives by strengthening linkages with SMFG's short-, medium- and long-term performance, and (b) further align the interests of executives with those of shareholders, increase the weight of stock compensation, and enhance the shareholding of our executives.

For more information about stock option plans and compensation plans utilizing restricted stock, see "Item 6.E. Share Ownership" or Note 39 "Share-Based Payment" to our consolidated financial statements included elsewhere in this annual report.

## **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 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 SMBC.

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 establishing 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 in accordance with 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 SMBC 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 SMBC 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 the SMBC Group. The committee, composed of one or more corporate executive officers, the president of SMBC, 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 outside 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, 2018, 2017 and 2016, on a consolidated basis, we had approximately 73,000, 77,200 and 73,700 employees, respectively, including locally hired staff in our foreign offices but excluding temporary employees. We also had an average of approximately 15,100 temporary employees during the fiscal year ended March 31, 2018.

The following tables show our full-time employees at March 31, 2018 on a consolidated basis under Japanese GAAP broken down based on business segment and geographical location:

|                                          | <b>Percentage of full-time<br/>employees at<br/>March 31, 2018</b> |
|------------------------------------------|--------------------------------------------------------------------|
| <b>Business segment:</b>                 |                                                                    |
| Wholesale Business Unit . . . . .        | 13%                                                                |
| Retail Business Unit . . . . .           | 48                                                                 |
| International Business Unit . . . . .    | 14                                                                 |
| Global Markets Business Unit . . . . .   | 2                                                                  |
| Head office account and others . . . . . | 23                                                                 |
| Total . . . . .                          | 100%                                                               |
|                                          |                                                                    |
|                                          | <b>Percentage of full-time<br/>employees at<br/>March 31, 2018</b> |
| <b>Location:</b>                         |                                                                    |
| Japan . . . . .                          | 87%                                                                |
| Americas . . . . .                       | 3                                                                  |
| Europe and Middle East . . . . .         | 2                                                                  |
| Asia and Oceania . . . . .               | 8                                                                  |
| Total . . . . .                          | 100%                                                               |

Most of our employees are members of workers' unions, which negotiate with management concerning remuneration and working conditions. We consider our labor relations to be good.

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 28, 2018:

|                                                    | <u>Number of shares owned</u> |
|----------------------------------------------------|-------------------------------|
| <b>Directors and corporate executive officers:</b> |                               |
| Koichi Miyata . . . . .                            | 29,651                        |
| Takeshi Kunibe . . . . .                           | 49,839                        |
| Makoto Takashima . . . . .                         | 24,195                        |
| Kozo Ogino . . . . .                               | 17,119                        |
| Jun Ohta . . . . .                                 | 18,919                        |
| Katsunori Tanizaki . . . . .                       | 14,675                        |
| Toshikazu Yaku . . . . .                           | 15,849                        |
| Toshiyuki Teramoto . . . . .                       | 8,500                         |
| Toru Mikami . . . . .                              | 1,300                         |
| Tetsuya Kubo . . . . .                             | 7,731                         |
| Masayuki Matsumoto . . . . .                       | 300                           |
| Arthur M. Mitchell . . . . .                       | 100                           |
| Shozo Yamazaki . . . . .                           | 100                           |
| Masaharu Kohno . . . . .                           | —                             |
| Yoshinobu Tsutsui . . . . .                        | —                             |
| Katsuyoshi Shinbo . . . . .                        | 300                           |
| Eriko Sakurai . . . . .                            | 500                           |
| Manabu Narita . . . . .                            | 17,341                        |
| Masahiko Oshima . . . . .                          | 16,549                        |
| Naoki Tamura . . . . .                             | 9,217                         |
| Hiroshi Munemasa . . . . .                         | 7,617                         |

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

### *Stock Option Plans*

The following table provides an overview of the significant terms and conditions of the SMFG Stock Acquisition Rights, that we issued prior to the revision of our executive compensation policy in July 2017 (discussed below):

|                                                      | <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 SMFG and SMBC | 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 SMFG and SMBC | 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 SMFG and SMBC | 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 SMFG and SMBC | 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 SMFG and SMBC | 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 |
| SMFG Stock Acquisition Rights (6th series) . . . .   | July 31, 2015             | 83 directors, corporate auditors and executive officers of SMFG and SMBC | 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 |

|                                                    | <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 (7th series) . . . . | July 26, 2016             | 89 directors, corporate auditors and executive officers of SMFG and SMBC | 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 |

### ***Compensation Plans Utilizing Restricted Stock***

On July 10, 2017, our compensation committee resolved to revise our executive compensation policy and to introduce new stock compensation plans that utilize restricted stock, while discontinuing the issuance of new stock options.

The plans consist of Stock Compensation Plan I (“Plan I”), which determines remuneration primarily based on our medium-term performance, Stock Compensation Plan II (“Plan II”), which determines remuneration primarily based on our annual performance and Stock Compensation Plan III (“Plan III”), which determines remuneration primarily based on corporate title.

Plan I (medium-term performance share plan) has an evaluation period of three years starting from the fiscal year ended March 31, 2018, corresponding with the our medium-term management plan. Executives are initially allotted shares of restricted stock equivalent to the monetary amount determined based on the executive’s corporate title. After the completion of the evaluation period, our compensation committee will review the progress of our medium-term management plan, performance of our common stock, and results of customer satisfaction surveys and other factors, to determine a final amount to be released from transfer restrictions. In case the final amount falls below the initial amount, we will retrieve all or part of the allotted shares at no cost.

Under Plan II (annual performance share plan), executives are allotted shares of restricted stock equivalent to a certain portion of the monetary amount determined based on the annual performance of SMFG and SMBC, as well as on the individual performance of the executives reviewed both from short-term and medium-to-long-term perspectives. The remainder will be paid to the executives as a cash bonus. Transfer restrictions on these shares are released evenly over the three-year period following the year of allotment.

Under Plan III (promotion reward plan), executives are allotted shares of restricted stock equivalent to pre-determined compensation amounts per title, reflecting the increased responsibilities derived from promotions. Restrictions shall apply to the shares until the earlier of 30 years from allotment or when the executive retires from office.

The eligible executives for the plans are directors (excluding outside directors), corporate executive officers and executive officers of SMFG and directors (excluding outside directors), executive officers and corporate auditors (excluding outside corporate auditors), etc. of SMBC, who are designated by the SMFG compensation committee or by SMBC and residing and serving in Japan. However, members of the SMFG audit committee and SMBC corporate auditors will only be eligible for Plan III.

The allotment agreements that we enter into with executives under the plans restrict disposal of the allotted shares in any manner, including transfers of ownership or granting of security interest and, also provide that we may retrieve all or part of the allotted shares at no cost in case the our compensation committee reaches certain decisions such as the non-achievement of financial targets. The agreements also include provisions for forfeiture and claw-back of vested stock in order to restrain excessive risk-taking and foster a prudent risk culture expected of a financial institution.

On July 10, 2017, our President and Group CEO, as delegated by our board of directors, determined the issuance of restricted stock to be allotted pursuant to the plans. The following table provides details of the issuance and allotment of the new shares:

| <u>Date of issue</u> | <u>Issue price</u> | <u>Class and total number of shares issued</u> | <u>Allottees and number of shares to be allotted</u>                                                                                                                                                                                                                               |
|----------------------|--------------------|------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| July 26, 2017        | ¥4,372 per share   | 387,765 shares of common stock of the Company  | SMFG directors: 7 persons 36,278 shares<br><br>SMFG corporate executive officers: 4 persons 12,863 shares<br><br>SMFG executive officers: 27 persons 47,077 shares<br><br>SMBC directors: 10 persons 71,703 shares<br><br>SMBC executive officers, etc.: 59 persons 219,844 shares |

### *Employee Stock Ownership Associations*

We have employee stock ownership associations in Japan for our and our 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 and our subsidiaries contribute matching funds equivalent to 5% of the amount purchased by the relevant association. At March 31, 2018, 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, 2018, were as follows:

| <b>Name:</b>                                                   | <b>Number of shares held<sup>(2)</sup></b> | <b>Percentage of shares issued<sup>(1)(2)</sup></b> |
|----------------------------------------------------------------|--------------------------------------------|-----------------------------------------------------|
| Japan Trustee Services Bank, Ltd. (Trust Account) . . . . .    | 82,563,000                                 | 5.85%                                               |
| The Master Trust Bank of Japan, Ltd. (Trust Account) . . . . . | 72,716,900                                 | 5.15%                                               |
| NATSCUMCO . . . . .                                            | 39,842,032                                 | 2.82%                                               |
| Japan Trustee Services Bank, Ltd. (Trust Account 9) . . . . .  | 30,932,300                                 | 2.19%                                               |
| Japan Trustee Services Bank, Ltd. (Trust Account 5) . . . . .  | 28,529,200                                 | 2.02%                                               |
| STATE STREET BANK WEST CLIENT—TREATY 505234 . . . . .          | 24,748,158                                 | 1.75%                                               |
| Japan Trustee Services Bank, Ltd. (Trust Account 1) . . . . .  | 21,209,100                                 | 1.50%                                               |
| Japan Trustee Services Bank, Ltd. (Trust Account 2) . . . . .  | 20,939,400                                 | 1.48%                                               |
| Barclays Securities Japan Limited . . . . .                    | 18,477,000                                 | 1.30%                                               |
| Japan Trustee Services Bank, Ltd. (Trust Account 7) . . . . .  | 18,442,300                                 | 1.30%                                               |

(1) Percentages are calculated based on the total number of shares of common stock then issued, excluding our treasury stock, and have been truncated to the nearest second decimal point.

- (2) On January 29, 2018, BlackRock, Inc. submitted a Schedule 13G to the SEC, indicating that BlackRock, Inc. and its subsidiaries beneficially held 102,228,728 shares of our common stock, representing 7.2% of our outstanding common stock at December 31, 2017. On February 8, 2018, Sumitomo Mitsui Trust Holdings, Inc. submitted a Schedule 13G to the SEC, indicating that Sumitomo Mitsui Trust Holdings, Inc. and its subsidiaries beneficially held 70,946,700 shares of our common stock, representing 5.0% of our outstanding common stock at December 31, 2017. However, we have not confirmed the status of any of these shareholdings at March 31, 2018.

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, 2018, there were 244 record holders of our common stock with addresses in the United States, whose shareholdings represented approximately 21% 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, 2018, 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, 2018, none of our directors, corporate executive officers or corporate auditors, 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, 2018. During the fiscal year ended March 31, 2018, we made no loans to our directors, corporate executive officers or corporate auditors 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, 2018 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 have a basic policy of enhancing 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 dividends each year, supported by our sustainable earnings growth, and seek to achieve a dividend payout ratio of 40% on a consolidated net profit basis under Japanese GAAP during the period of the next medium-term management plan.

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, 2016 through the fiscal year ended March 31, 2018:

|                                    | Dividend per share  |                         |
|------------------------------------|---------------------|-------------------------|
|                                    | Paid <sup>(1)</sup> | Declared <sup>(2)</sup> |
| <b>Fiscal year ended March 31,</b> |                     |                         |
| 2016 .....                         | ¥ 150               | ¥ 155                   |
| 2017 .....                         | 150                 | 150                     |
| 2018 .....                         | 170                 | 155                     |

(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.

## 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, 2014.

|                                                                   | Price per ADS |         | Average daily trading volume<br>(Number of shares) |
|-------------------------------------------------------------------|---------------|---------|----------------------------------------------------|
|                                                                   | High          | Low     |                                                    |
|                                                                   | (In dollars)  |         |                                                    |
| <b>Fiscal year ended March 31, except quarter and month data:</b> |               |         |                                                    |
| 2014 .....                                                        | \$10.59       | \$ 7.32 | 1,600,359                                          |
| 2015 .....                                                        | 8.83          | 6.74    | 1,760,924                                          |
| 2016 .....                                                        | 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                                          |
| 2018:                                                             |               |         |                                                    |
| First quarter .....                                               | 7.92          | 6.93    | 1,930,520                                          |
| Second quarter .....                                              | 7.98          | 7.33    | 980,554                                            |
| Third quarter .....                                               | 8.86          | 7.64    | 927,306                                            |
| Fourth quarter .....                                              | 9.67          | 8.33    | 1,389,541                                          |
| Full year .....                                                   | 9.67          | 6.93    | 1,306,320                                          |
| Most recent six months:                                           |               |         |                                                    |
| December .....                                                    | 8.86          | 8.08    | 856,752                                            |
| January .....                                                     | 9.67          | 8.69    | 1,180,933                                          |
| February .....                                                    | 9.35          | 8.56    | 1,440,803                                          |
| March .....                                                       | 8.77          | 8.33    | 1,551,769                                          |
| April .....                                                       | 8.66          | 8.13    | 854,574                                            |
| May .....                                                         | 8.65          | 8.15    | 1,304,442                                          |
| June (through June 15, 2018) .....                                | 8.49          | 8.14    | 767,975                                            |

### *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, 2014 on the Tokyo Stock Exchange.

|                                                            | Price per shares |         | Average daily trading volume<br><br>(Number of shares) |
|------------------------------------------------------------|------------------|---------|--------------------------------------------------------|
|                                                            | High             | Low     |                                                        |
|                                                            | (In yen)         |         |                                                        |
| Fiscal year ended March 31, except quarter and month data: |                  |         |                                                        |
| 2014 .....                                                 | ¥ 5,470          | ¥ 3,545 | 9,052,026                                              |
| 2015 .....                                                 | 4,915            | 3,800   | 7,609,582                                              |
| 2016 .....                                                 | 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                                              |
| 2018:                                                      |                  |         |                                                        |
| First quarter .....                                        | 4,448            | 3,760   | 7,140,268                                              |
| Second quarter .....                                       | 4,450            | 3,973   | 5,975,613                                              |
| Third quarter .....                                        | 5,009            | 4,278   | 7,787,789                                              |
| Fourth quarter .....                                       | 5,333            | 4,375   | 7,639,756                                              |
| Full year .....                                            | 5,333            | 3,760   | 7,129,686                                              |
| Most recent six months:                                    |                  |         |                                                        |
| December .....                                             | 5,009            | 4,541   | 8,780,181                                              |
| January .....                                              | 5,333            | 4,878   | 8,452,326                                              |
| February .....                                             | 5,139            | 4,642   | 8,299,626                                              |
| March .....                                                | 4,642            | 4,375   | 6,307,548                                              |
| April .....                                                | 4,711            | 4,338   | 6,487,225                                              |
| May .....                                                  | 4,807            | 4,413   | 6,187,924                                              |
| June (through June 15, 2018) .....                         | 4,665            | 4,461   | 5,563,336                                              |

## 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, 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 SMBC pays us. Under some circumstances, various statutory or contractual provisions may restrict the dividends SMBC can pay us. For example, if SMBC 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, SMBC.

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 more 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, 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;
- 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. 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. 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. 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, 2018. However, since proposed Treasury regulations may not be finalized in their current form, and 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 in a financial account, in which the account may be reportable if maintained by a non-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 SMBC 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 ("CRO") who reports to the board of directors and its internal committees and conducting various meetings for business executions to centrally identify and manage risks.

#### **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.

We conduct business operations based on our overarching Risk Appetite Framework ("RAF").

##### ***Risk Appetite Framework***

We introduced RAF to ensure that risk and return levels are appropriate. RAF clarifies the types and levels of risk that we are willing to take on or are prepared to tolerate in order to grow profits based on an accurate understanding of the operating environment and the inherent risks (risk appetite). RAF also contains provisions for controlling SMBC Group-wide risk. Accordingly, RAF provides a central pillar of business management alongside business strategy.

Our basic position and risk appetite specifics are set out in an internal document for SMBC 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: soundness, profitability, liquidity, credit, market, operational and conduct. We also have quantitative measures (i.e. Risk Appetite Measures) that function as benchmarks for risks that we are considering taking and for risk / return.

For the 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 common equity Tier 1 ratio, the leverage ratio, and several other indicators have been established as Risk Appetite Measures.

Risk appetite has been established for specific business units or strategies as necessary based on our overall risk appetite.

#### *Operation of Risk Appetite Framework*

The process of setting risk appetite for each fiscal year begins with discussions and the sharing of information on the current and future business environment and risks by the Management Committee and the board of directors. Risks that threaten to severely impact management are identified as Top Risks. Risk appetite is then decided on the basis of risk analyses (stress testing) that illustrate the impact if a risk might be realized. Business strategy and policies for the conduct of business are drawn up on the basis of the risk appetite decisions.

The outlooks for the operating environment and risks, including Top Risks, are continuously updated over the course of the fiscal year's business and the situations relating to risk appetite are regularly monitored through the status of Risk Appetite Measures. Risk Appetite Measures and business strategies are revised as necessary.

Three risk management levels are set for Risk Appetite Measures, which are monitored accordingly.

#### *Comprehensive Risk Management*

The risks that need to be managed on an SMBC Group-wide basis have been defined as credit risk, market risk, liquidity risk, and operational risk. Risks are managed based on their characteristics.

In addition, necessary guidance is provided to SMBC Group companies in identifying categories of risk they need to address in their particular businesses. These risk categories are continuously reviewed and new ones may be added in response to changes in the operating environment.

Thorough assessments of the operating environment and risks, including Top Risks, are carried out to ensure effective operation of RAF, after which risks are managed systematically through frameworks for risk analysis via stress testing 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.* Operational risk is the possibility of losses arising from inadequate or failed internal processes, people, and systems or from external events.

#### *Top Risks*

We identify those risks that threaten to significantly impact management as Top Risks.

The selection of Top Risks involves comprehensive screening of risk factors, evaluation of each risk scenario's possibility of occurrence and potential impact on management, and discussion in the Risk Management Committee and the Management Committee. Top Risks are utilized to enhance risk management by being incorporated into discussions of RAF and the formulation of business strategies and into the creation of risk scenarios for stress testing.

### *Stress Testing*

In the current volatile business environment, stress testing is 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 SMBC 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. In the scenario design process, scenarios are designed by the Corporate Risk Management Department after compiling information on our Top Risks and the views of related departments on such factors 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 for verification of the appropriateness of business strategy.

### *Risk Capital Management*

In managing credit risk, market risk, and operational risk affecting the entire SMBC Group, we apply a uniform standard, risk capital based on value at risk ("VaR"), for use in monitoring and managing risks. This standard is applied while taking into account the characteristics of each risk and of the businesses of SMBC Group companies. Specific risk capital measures include setting upper limits for risk exposure based on SMBC Group-wide and business unit risk appetite and SMBC Group-wide management constitution. Each business unit operates business operation within that limit. Through these precautions, we practice management that maintains an appropriate balance between risks and returns based on a comprehensive perspective and secure sufficient financial soundness.

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" and "Operational Risk."

### *Risk Management System*

Top management plays an active role in the risk management process out of recognition for the importance of risk management. The SMBC Group-wide basic policies for risk management are determined by the Management Committee before being authorized by the board of directors.

In line with these basic policies for risk management, the functions for managing major risks are consolidated within the Risk Management Unit, which is independent from business units, and we seek to refine our risk management system through such means as enhancing comprehensive reviews of each risk category. In addition, the Internal Audit Unit conducts internal audits on the status of risk management to verify that risk is appropriately managed.

Risk management systems are in place at individual SMBC Group companies that have been established based on the characteristics of their particular businesses and in accordance with the basic policies. Furthermore,

we are sharing information on SMBC Group-wide risk management and strengthening related systems through the Group CRO Committee, which consists of the Group CRO and risk management representatives from strategically important SMBC Group companies.

#### ***Risk Committee***

The Risk Committee is an internal committee of the board of directors, composed of outside directors as well as experts from inside and outside of the Company who possess specialized insight.

The Risk Committee meets regularly to discuss risk management topics, including Top Risks and RAF, from a specialist viewpoint. The results are reported to the board of directors as necessary.

#### ***Risk Management Committee***

Chaired by the Group CRO and consisting of representatives from risk management divisions and business units, the Risk Management Committee is tasked with compiling and sharing information related to SMBC Group-wide risk management and discussing this information as necessary.

The committee discusses risks, RAF, and other matters related to all areas of risk management and reports its results to the Management Committee.

#### ***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.

Detailed information on our capital ratios is included 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.

At the SMBC Group, the Group CRO formulates credit risk management policies each year on the basis of SMBC Group-wide basic policies for risk management. The Credit & Investment Planning Department,

responsible for the comprehensive management of credit risk, drafts and administers credit risk regulations including the SMBC Group credit policies, manages non-performing loans (“NPLs”), and performs other aspects of credit portfolio management. Also, the Credit Risk Committee deliberates on matters related to SMBC Group-wide credit portfolios. SMBC Group companies follow the fundamental principles established by us to assess and manage credit risk. Each of SMBC 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 SMBC, 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 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 of SMBC within each business unit conduct credit risk management for loans handled by its unit and manage portfolios of its unit. 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 SMBC Group company, which engages in related services to efficiently reduce the amount of NPLs, including through the sale of loans.

The Internal Audit Unit of SMBC, 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, we first acknowledge that every loan entails credit risk, assess the credit risk posed by each borrower and loan using an internal rating system, and quantify that risk for control purposes.

### ***Credit Risk Evaluation***

At SMBC, 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 SMBC.

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 of SMBC 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*

At SMBC, 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, the Corporate Risk Management Department of the Company 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***

As our equity capital may be materially impaired in the event that the credit concentration risk becomes apparent, the Credit & Investment Planning Department of the Company 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, SMBC's Credit 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.

### **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 our liquidity obligations through monitoring the liquidity gap between assets and liabilities, and by maintaining highly liquid supplementary funding resources.

On the basis of the SMBC Group-wide basic policies for risk management, we have a quantitative management process to control market and liquidity risks on an SMBC 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 SMBC 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 which clearly separates front, middle and back office operations, and establishes 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.

The Corporate Risk Management Department, which is independent of the business units that directly handle market transactions, manages market and liquidity risks in an integrated manner. The Corporate Risk Management Department not only monitors the current risk situations but also reports regularly to the Management Committee and the board of directors. Furthermore, the Asset Liability Management (“ALM”) Committee meets on a quarterly basis to examine reports on the state of market risk management and to discuss our ALM operation policies. Furthermore, SMBC’s 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 discuss SMBC’s ALM operations.

The Internal Audit Unit of SMBC also 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 derived from trading activities and non-trading activities, including strategic equity investment and other transactions within the risk capital limit, which is determined by 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 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, 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 SMBC 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:

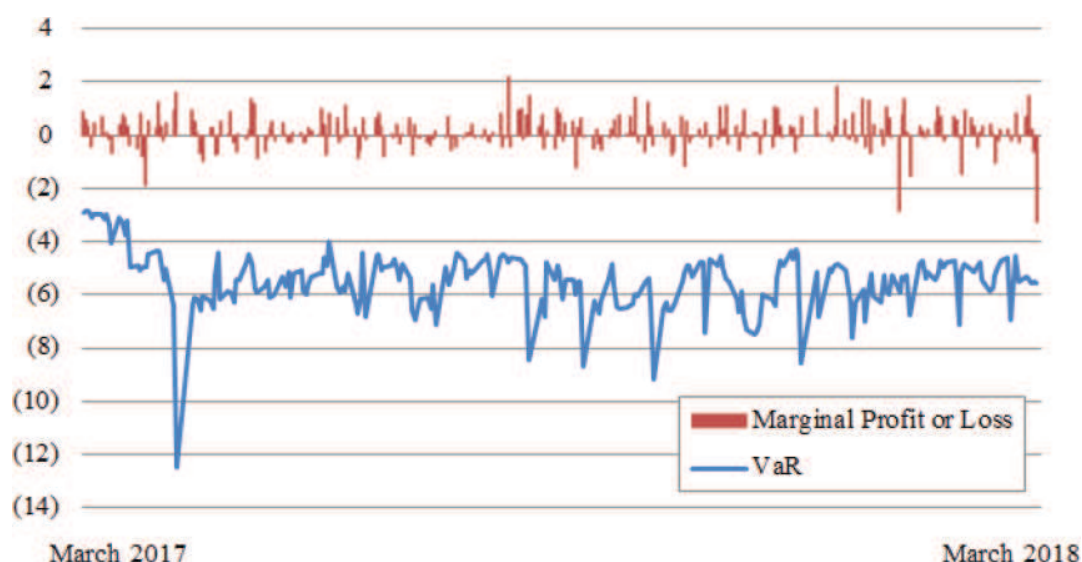
- the historical simulation method;
- a one-sided confidence interval of 99.0%;
- a one-day holding period (a one-year holding period for the strategic equity investment portfolio); and
- an observation period of four years (ten years for the strategic equity investment portfolio).

This method is reviewed periodically and refined, if necessary.

The relationship between the VaR calculated by the model and the actual profit and loss data is back-tested periodically. The back-testing results for the SMBC Group’s trading accounts during the fiscal year ended March 31, 2018 are shown below. There were no significant excess losses, which demonstrate that the SMBC Group’s VaR model, with a one-sided confidence interval of 99.0%, is sufficiently reliable.

### *Back-Testing Results (Trading Book—SMFG consolidated)*

(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, 2018 and 2017*

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, 2018:</b> |                           |      |                              |     |                                      |      |               |                            |        |
| SMBC Consolidated                                |                           |      |                              |     |                                      |      |               |                            |        |
| Maximum .....                                    | ¥                         | 3.2  | ¥                            | 4.3 | ¥                                    | 3.9  | ¥             | 3.6                        | ¥ 11.2 |
| Minimum .....                                    |                           | 1.3  |                              | 1.2 |                                      | 0.0  |               | 1.4                        | 3.5    |
| Daily average .....                              |                           | 2.1  |                              | 2.4 |                                      | 1.5  |               | 2.3                        | 7.2    |
| At March 31, 2018 .....                          |                           | 2.6  |                              | 3.6 |                                      | 0.0  |               | 3.2                        | 8.1    |
| SMFG Consolidated                                |                           |      |                              |     |                                      |      |               |                            |        |
| Maximum .....                                    | ¥                         | 30.9 | ¥                            | 5.0 | ¥                                    | 11.4 | ¥             | 3.6                        | ¥ 39.5 |
| Minimum .....                                    |                           | 6.7  |                              | 1.5 |                                      | 4.3  |               | 1.4                        | 14.5   |
| Daily average .....                              |                           | 12.3 |                              | 3.0 |                                      | 6.3  |               | 2.3                        | 22.1   |
| At March 31, 2018 .....                          |                           | 11.3 |                              | 4.3 |                                      | 4.3  |               | 3.2                        | 21.5   |
|                                                  | <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   |

- (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, 2018:</b> |                           |      |                              |     |                                      |      |               |                            |
| SMBC Consolidated                                |                           |      |                              |     |                                      |      |               |                            |
| Maximum .....                                    | ¥                         | 31.5 | ¥                            | 0.0 | ¥                                    | 39.9 | ¥             | 54.5                       |
| Minimum .....                                    |                           | 25.2 |                              | 0.0 |                                      | 21.5 |               | 38.0                       |
| Daily average .....                              |                           | 27.4 |                              | 0.0 |                                      | 30.4 |               | 44.4                       |
| At March 31, 2018 .....                          |                           | 31.3 |                              | 0.0 |                                      | 28.1 |               | 45.7                       |
| SMFG Consolidated                                |                           |      |                              |     |                                      |      |               |                            |
| Maximum .....                                    | ¥                         | 34.0 | ¥                            | 0.0 | ¥                                    | 39.9 | ¥             | 57.0                       |
| Minimum .....                                    |                           | 27.8 |                              | 0.0 |                                      | 21.6 |               | 40.8                       |
| Daily average .....                              |                           | 30.2 |                              | 0.0 |                                      | 30.5 |               | 47.2                       |
| At March 31, 2018 .....                          |                           | 33.7 |                              | 0.0 |                                      | 28.1 |               | 48.2                       |
|                                                  | <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 | ¥             | 49.9                       |
| Minimum .....                                    |                           | 23.2 |                              | 0.0 |                                      | 24.7 |               | 37.8                       |
| Daily average .....                              |                           | 27.0 |                              | 0.0 |                                      | 32.1 |               | 43.0                       |
| At March 31, 2017 .....                          |                           | 27.4 |                              | 0.0 |                                      | 34.2 |               | 44.1                       |
| SMFG Consolidated                                |                           |      |                              |     |                                      |      |               |                            |
| Maximum .....                                    | ¥                         | 37.3 | ¥                            | 0.0 | ¥                                    | 38.9 | ¥             | 53.2                       |
| Minimum .....                                    |                           | 26.4 |                              | 0.0 |                                      | 24.8 |               | 40.2                       |
| Daily average .....                              |                           | 30.0 |                              | 0.0 |                                      | 32.2 |               | 46.1                       |
| At March 31, 2017 .....                          |                           | 30.6 |                              | 0.0 |                                      | 34.3 |               | 47.4                       |

(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><br>(In billions) |
|--------------------------------------------------|---------------------------------------|
| <b>For the fiscal year ended March 31, 2018:</b> |                                       |
| SMBC Consolidated                                |                                       |
| Maximum .....                                    | ¥ 1,622.9                             |
| Minimum .....                                    | 1,309.8                               |
| Daily average .....                              | 1,456.6                               |
| At March 31, 2018 .....                          | 1,389.4                               |
| SMFG Consolidated                                |                                       |
| Maximum .....                                    | ¥ 1,855.9                             |
| Minimum .....                                    | 1,488.1                               |
| Daily average .....                              | 1,664.2                               |
| At March 31, 2018 .....                          | 1,603.6                               |
|                                                  | <u>Equities risk</u><br>(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                               |

### ***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, we perform 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 SMBC Group adopts various indices to measure and monitor the sensitivity of interest rates, including delta, gamma and vega risks. The SMBC 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 SMBC 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. In addition, as previously addressed, the SMBC 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 SMBC 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.

Based on the standards for interest rate risk in the banking book issued by the BCBS in April 2016, the FSA revised the related regulatory guidelines pertaining to monitoring of interest rate risks in the banking book in December 2017. The revised disclosure requirements with respect to the changes in economic value of equity (“ $\Delta$ EVE”) and changes in net interest income (“ $\Delta$ NII”) in the banking book as a result of interest rate shocks have been applied from March 31, 2018. The tables below present  $\Delta$ EVE and  $\Delta$ NII of SMBC and SMFG on a consolidated basis at March 31, 2018, respectively.

$\Delta$ EVE is defined as a decline in economic value as a result of an interest rate shock. It is calculated by multiplying the interest rate sensitivity (excluding credit spread) and interest rate change. The FSA implements a “materiality test” to identify banks taking excessive interest rate risks. Under the materiality test, the FSA monitors the ratio of  $\Delta$ EVE to Tier 1 capital based on a set of prescribed interest rate shock scenarios. The threshold applied by the FSA is 15% and the ratios for SMBC and SMFG on a consolidated basis at March 31, 2018 were 4.8% and 4.2%, respectively.

$\Delta$ NII is defined as a decline in interest income over a rolling 12-month period as a result of an interest rate shock. It is calculated assuming a constant balance sheet over a forward-looking rolling 12-month period.

|                                 |   | At March 31, 2018 |              |
|---------------------------------|---|-------------------|--------------|
|                                 |   | $\Delta$ EVE      | $\Delta$ NII |
|                                 |   | (In billions)     |              |
| SMBC Consolidated               |   |                   |              |
| Parallel shock up . . . . .     | ¥ | 450.8             | ¥ (298.9)    |
| Parallel shock down . . . . .   |   | 0.0               | 446.5        |
| Steepener shock . . . . .       |   | 234.6             | —            |
| Flattener shock . . . . .       |   | 14.5              | —            |
| Short rate shock up . . . . .   |   | 69.9              | —            |
| Short rate shock down . . . . . |   | 0.2               | —            |
| Maximum . . . . .               |   | 450.8             | 446.5        |
|                                 |   | At March 31, 2018 |              |
|                                 |   | (In billions)     |              |
| Tier 1 Capital . . . . .        | ¥ |                   | 9,423.7      |

|                                 |   | At March 31, 2018 |           |
|---------------------------------|---|-------------------|-----------|
|                                 |   | ΔEVE              | ΔNII      |
|                                 |   | (In billions)     |           |
| SMFG Consolidated               |   |                   |           |
| Parallel shock up . . . . .     | ¥ | 450.8             | ¥ (298.9) |
| Parallel shock down . . . . .   |   | 0.0               | 446.5     |
| Steeper shock . . . . .         |   | 234.6             | —         |
| Flattener shock . . . . .       |   | 14.5              | —         |
| Short rate shock up . . . . .   |   | 69.9              | —         |
| Short rate shock down . . . . . |   | 0.2               | —         |
| Maximum . . . . .               |   | 450.8             | 446.5     |
|                                 |   | At March 31, 2018 |           |
|                                 |   | (In billions)     |           |
| Tier 1 Capital . . . . .        | ¥ |                   | 10,610.2  |

Note: ΔEVE and ΔNII are calculated by currency at SMBC consolidated level and the results are aggregated across the various currencies. For ΔNII, only Japanese yen and U.S. dollars are included in the calculation. These are the material currencies where interest rate sensitive assets and liabilities are more than 5% of total assets and liabilities. In addition, ΔEVE and ΔNII at March 31, 2017 are not disclosed because the calculation of them is not required for the regulatory purpose.

Under the related regulatory guidelines prior to the revisions pertaining to monitoring of interest rate risks in the banking book published by the FSA in December 2017, a bank would fall into the category of “outlier bank,” as stipulated under Pillar 2 of the Basel Capital Accord, in the event the economic value of a bank declines by more than 20% of total capital as a result of interest rate shocks. This ratio, known as the outlier ratio, was 1.5% 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.

|                                      |   | At March 31, 2017                 |
|--------------------------------------|---|-----------------------------------|
|                                      |   | (In billions, except percentages) |
| SMBC Consolidated                    |   |                                   |
| Total                                | ¥ | 150.5                             |
| Impact of yen interest rates         |   | 77.2                              |
| Impact of U.S. dollar interest rates |   | 50.8                              |
| Impact of euro interest rates        |   | 8.8                               |
| Percentage of total capital          |   | 1.5%                              |

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 SMBC 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 regard liquidity risk as one of the major risks. We manage liquidity risk based on a framework consisting of setting upper limits for “funding gaps,” maintaining high-quality liquid assets in line with the SMBC Group’s risk appetite and establishing contingency plans.

A funding gap is defined as a maturity mismatch between a source of funds and the use of funds. We actively manage 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 an SMBC Group company 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. We actively monitor 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. We also monitor quantitative indicators of the levels of risk exposure to be assumed, such as Liquidity Coverage Ratio. In addition, SMBC, the SMBC Group’s major banking subsidiary, establishes quantitative alert system based on early warning indicators to detect liquidity risks promptly and systematically. Additionally, funding liquidity is maintained by holding assets, such as central bank reserves and government bonds which can be immediately converted to cash, in line with the SMBC Group’s risk appetite, in order to smoothly raise the required funds even during market disruption.

Furthermore, contingency plans are developed at each SMBC Group company 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**

Operational risk is the possibility of losses arising from inadequate or failed internal processes, people and systems or from external events. Specifically, it covers processing risk, system risk, legal risk, human resources risk, reputational risk and tangible asset risk. We have prepared operational risk management regulations to define the basic rules to be observed across SMBC Group. Under these regulations, we are working to raise the level of sophistication of our management of operational risk across the SMBC 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 directors and employees, and from accidents or misconducts. We have clarified the divisions responsible for the oversight functions for processing risk management, and we are working to raise the level of sophistication of our management of processing risk across the whole SMBC Group by establishing systems for managing the processing risks faced by SMBC Group companies, ensuring in-office inspection, minimizing losses in the event of processing risk materialization by drafting exhaustive contingency plans, and carrying out thorough quantification of the risk under management as basic principles.

System risk is the possibility of a loss arising from nonconformity to the business strategies, inappropriate technologies applied, changes to the development plan and delay in development when building an information system, and the risk of loss incurred due to the breakdown including those caused by cyberattack, malfunction, deficiency or unauthorized use (unauthorized alteration, destruction, duplication and leakage of the information). We have set the following as basic principles: recognizing information systems as an essential part of management strategy taking into account advances in IT, minimizing system risk by drafting regulations and specific management standards, (including a security policy) and establishing contingency plans to minimize losses if a system risk materializes.

**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                                                                |
| Depository 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.

Depository 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 the Company for certain expenses the Company incurs in connection with its ADR program, subject to certain ceilings. During the fiscal year ended March 31, 2018, 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, 2018. 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, 2018 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, 2018 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, 2018.

The effectiveness of our internal control over financial reporting at March 31, 2018 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.

On December 27, 2017, with the purpose of enhancing our risk management structure, including compliance, we revised our previous internal rules and established “Principles of Action on Compliance and Risk” and “Policies on Compliance Management.”

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.

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, 2018.

## 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, 2018 and 2017 are presented in the following table:

|                                             | For the fiscal year ended<br>March 31, |         |
|---------------------------------------------|----------------------------------------|---------|
|                                             | 2018                                   | 2017    |
|                                             | (In millions)                          |         |
| Audit fees <sup>(1)</sup> . . . . .         | ¥ 5,275                                | ¥ 4,764 |
| Audit-related fees <sup>(2)</sup> . . . . . | 227                                    | 206     |
| Tax fees <sup>(3)</sup> . . . . .           | 190                                    | 148     |
| All other fees <sup>(4)</sup> . . . . .     | 90                                     | 58      |
| Total . . . . .                             | ¥ 5,782                                | ¥ 5,176 |

(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 include fees for advisory services in relation to consideration of examining the effectiveness of subsidiaries’ internal audit systems.

### *Pre-Approval Policies and Procedures*

Pursuant to Rule 2-01(c)(7) of Regulation S-X, our audit committee pre-approves all engagements with KPMG AZSA and its affiliates. Under the policies and procedures established by our audit committee, the Company and its subsidiaries must apply to our audit committee 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 is granted by our audit committee prior to entering into the engagement. Additionally, if necessary, full-time audit committee members may consider any case-by-case application for pre-approval on behalf of our audit committee prior to the next scheduled audit committee meeting. Such pre-approvals made by full-time audit committee members are reported to our audit committee at the next scheduled audit committee 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, 2018 and 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, 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, 2018:

|                                        | Total number of<br>shares purchased <sup>(1)</sup> | Average price<br>paid per share | Total number of<br>shares purchased<br>as part of<br>publicly announced plans<br>or programs | Maximum<br>number of shares<br>that may yet be<br>purchased under<br>the plans<br>or programs |
|----------------------------------------|----------------------------------------------------|---------------------------------|----------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|
| April 1 to April 30, 2017 .....        | 1,446                                              | ¥ 3,931                         | —                                                                                            | —                                                                                             |
| May 1 to May 31, 2017 .....            | 1,463                                              | 4,145                           | —                                                                                            | —                                                                                             |
| June 1 to June 30, 2017 .....          | 1,813                                              | 4,162                           | —                                                                                            | —                                                                                             |
| July 1 to July 31, 2017 .....          | 2,675                                              | 4,313                           | —                                                                                            | —                                                                                             |
| August 1 to August 31, 2017 .....      | 2,919                                              | 4,171                           | —                                                                                            | —                                                                                             |
| September 1 to September 30, 2017 .... | 2,596                                              | 4,153                           | —                                                                                            | —                                                                                             |
| October 1 to October 31, 2017 .....    | 3,146                                              | 4,360                           | —                                                                                            | —                                                                                             |
| November 1 to November 30, 2017 ....   | 2,403                                              | 4,512                           | —                                                                                            | —                                                                                             |
| December 1 to December 31, 2017 ....   | 4,749                                              | 4,785                           | —                                                                                            | —                                                                                             |
| January 1 to January 31, 2018 .....    | 4,046                                              | 5,164                           | —                                                                                            | —                                                                                             |
| February 1 to February 28, 2018 .....  | 2,363                                              | 4,843                           | —                                                                                            | —                                                                                             |
| March 1 to March 31, 2018 .....        | 1,935                                              | 4,615                           | —                                                                                            | —                                                                                             |
| Total .....                            | 31,554                                             | ¥ 4,511                         | —                                                                                            | —                                                                                             |

(1) A total of 31,554 shares were purchased other than through a publicly announced plan or program during the fiscal year ended March 31, 2018, 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.

On May 14, 2018, we announced that our board of directors resolved to repurchase shares of our common stock and cancel all the repurchased shares. The resolution authorized the repurchase of up to the lesser of (i) an aggregate of 20,000,000 shares of our common stock and (ii) an aggregate of ¥70 billion between May 15, 2018 and July 31, 2018. On June 19, 2018, we completed the repurchase, acquiring 15,368,300 shares of our common stock for ¥70 billion in aggregate. The cancellation of all the repurchased shares is scheduled on August 20, 2018.

#### **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 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 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 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 and ethics 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>.
- A NYSE-listed U.S. company must generally obtain shareholder approval with respect to any equity compensation plan, subject to limited exemptions. Under the Companies Act, companies with three statutory committees such as us are not required to obtain shareholder approval with respect to equity compensation plans. In this case, the compensation committee is required to establish policies in regard to the determination of compensation of the directors and corporate executive officers, including stock compensation plans that utilize restricted stock, and determines the contents of compensation of the individual directors and corporate executive officers in accordance with such policies. For details of the equity compensation plan introduced by us, see “Item 6.E. Share Ownership.”

**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, incorporated by reference from our registration statement on Form 20-F (Commission file number 001-34919) filed 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, incorporated by reference from our registration statement on Form 20-F (Commission file number 001-34919) filed on June 29, 2017                                                                    |
| Exhibit 1.3      | Share Handling Regulations of Sumitomo Mitsui Financial Group, Inc., as amended on June 29, 2017, incorporated by reference from our registration statement on Form 20-F (Commission file number 001-34919) filed 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, 2018                                                                                                                                                                                                                                 |
| Exhibit 11       | Code of Ethics of Sumitomo Mitsui Financial Group, Inc., as amended on June 22, 2018                                                                                                                                                                                                                             |
| 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                                                                                                                                                                                                                                                         |
| Exhibit 101. INS | XBRL Instance Document                                                                                                                                                                                                                                                                                           |
| Exhibit 101. SCH | XBRL Taxonomy Extension Schema                                                                                                                                                                                                                                                                                   |
| Exhibit 101. CAL | XBRL Taxonomy Extension Calculation Linkbase                                                                                                                                                                                                                                                                     |
| Exhibit 101. DEF | XBRL Taxonomy Extension Definition Linkbase                                                                                                                                                                                                                                                                      |
| Exhibit 101. LAB | XBRL Taxonomy Extension Label Linkbase                                                                                                                                                                                                                                                                           |
| Exhibit 101. PRE | XBRL Taxonomy Extension Presentation Linkbase                                                                                                                                                                                                                                                                    |

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 28, 2018

## 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, 2018, 2017 and 2016. 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,                                       |                     |                 |              |                     |                 |              |                     |                 |              |
|---------------------------------------------------------------------------|---------------------|-----------------|--------------|---------------------|-----------------|--------------|---------------------|-----------------|--------------|
|                                                                           | 2018                |                 |              | 2017                |                 |              | 2016                |                 |              |
|                                                                           | 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                                                          | ¥ 848,242           | ¥ 4,536         | 0.53%        | ¥ 762,460           | ¥ 4,099         | 0.54%        | ¥ 768,976           | ¥ 4,771         | 0.62%        |
| Foreign offices                                                           | 4,873,905           | 73,681          | 1.51%        | 4,617,409           | 41,671          | 0.90%        | 5,786,836           | 35,701          | 0.62%        |
| Total                                                                     | 5,722,147           | 78,217          | 1.37%        | 5,379,869           | 45,770          | 0.85%        | 6,555,812           | 40,472          | 0.62%        |
| Call loans and bills bought:                                              |                     |                 |              |                     |                 |              |                     |                 |              |
| Domestic offices                                                          | 81,336              | 412             | 0.51%        | 76,227              | 467             | 0.61%        | 147,992             | 861             | 0.58%        |
| Foreign offices                                                           | 1,730,409           | 18,950          | 1.10%        | 1,303,429           | 11,598          | 0.89%        | 967,442             | 20,967          | 2.17%        |
| Total                                                                     | 1,811,745           | 19,362          | 1.07%        | 1,379,656           | 12,065          | 0.87%        | 1,115,434           | 21,828          | 1.96%        |
| Reverse repurchase agreements and cash collateral on securities borrowed: |                     |                 |              |                     |                 |              |                     |                 |              |
| Domestic offices                                                          | 8,120,363           | 14,563          | 0.18%        | 7,443,668           | 12,151          | 0.16%        | 6,675,810           | 10,763          | 0.16%        |
| Foreign offices                                                           | 1,222,180           | 25,458          | 2.08%        | 1,009,997           | 17,450          | 1.73%        | 741,623             | 11,248          | 1.52%        |
| Total                                                                     | 9,342,543           | 40,021          | 0.43%        | 8,453,665           | 29,601          | 0.35%        | 7,417,433           | 22,011          | 0.30%        |
| Trading assets <sup>(1)</sup> :                                           |                     |                 |              |                     |                 |              |                     |                 |              |
| Domestic offices                                                          | 2,565,770           | 1,943           | 0.08%        | 2,835,336           | 8,751           | 0.31%        | 3,500,759           | 21,259          | 0.61%        |
| Foreign offices                                                           | 176,888             | 2,857           | 1.62%        | 119,777             | 1,869           | 1.56%        | 85,204              | 1,240           | 1.46%        |
| Total                                                                     | 2,742,658           | 4,800           | 0.18%        | 2,955,113           | 10,620          | 0.36%        | 3,585,963           | 22,499          | 0.63%        |
| Financial assets at fair value through profit or loss <sup>(2)</sup> :    |                     |                 |              |                     |                 |              |                     |                 |              |
| Domestic offices                                                          | 1,564,439           | (23)            | (0.00%)      | 1,582,142           | —               | 0.00%        | 1,629,644           | 4,425           | 0.27%        |
| Held-to-maturity investments <sup>(3)</sup> :                             |                     |                 |              |                     |                 |              |                     |                 |              |
| Domestic offices                                                          | 784,339             | 3,244           | 0.41%        | 1,809,777           | 6,756           | 0.37%        | 2,964,539           | 12,880          | 0.43%        |
| Available-for-sale financial assets <sup>(3)</sup> :                      |                     |                 |              |                     |                 |              |                     |                 |              |
| Domestic offices                                                          | 9,799,861           | 44,053          | 0.45%        | 7,477,480           | 41,561          | 0.56%        | 10,878,176          | 38,701          | 0.36%        |
| Foreign offices                                                           | 3,406,370           | 54,998          | 1.61%        | 2,945,084           | 39,031          | 1.33%        | 2,425,249           | 33,331          | 1.37%        |
| Total                                                                     | 13,206,231          | 99,051          | 0.75%        | 10,422,564          | 80,592          | 0.77%        | 13,303,425          | 72,032          | 0.54%        |
| Loans and advances <sup>(4)</sup> :                                       |                     |                 |              |                     |                 |              |                     |                 |              |
| Domestic offices                                                          | 68,551,116          | 1,093,584       | 1.60%        | 66,948,344          | 1,082,058       | 1.62%        | 63,177,259          | 1,091,538       | 1.73%        |
| Foreign offices                                                           | 28,121,904          | 810,591         | 2.88%        | 25,298,515          | 643,419         | 2.54%        | 26,272,983          | 611,823         | 2.33%        |
| Total                                                                     | 96,673,020          | 1,904,175       | 1.97%        | 92,246,859          | 1,725,477       | 1.87%        | 89,450,242          | 1,703,361       | 1.90%        |
| Total interest-earning assets:                                            |                     |                 |              |                     |                 |              |                     |                 |              |
| Domestic offices                                                          | 92,315,466          | 1,162,312       | 1.26%        | 88,935,434          | 1,155,843       | 1.30%        | 89,743,155          | 1,185,198       | 1.32%        |
| Foreign offices                                                           | 39,531,656          | 986,535         | 2.50%        | 35,294,211          | 755,038         | 2.14%        | 36,279,337          | 714,310         | 1.97%        |
| Total                                                                     | 131,847,122         | ¥2,148,847      | 1.63%        | 124,229,645         | ¥1,910,881      | 1.54%        | 126,022,492         | ¥1,899,508      | 1.51%        |
| <b>Non-interest-earning assets:</b>                                       |                     |                 |              |                     |                 |              |                     |                 |              |
| Cash and due from banks                                                   | 47,107,953          |                 |              | 37,551,682          |                 |              | 32,203,057          |                 |              |
| Other non-interest-earning assets                                         | 21,130,470          |                 |              | 20,498,864          |                 |              | 20,359,043          |                 |              |
| Allowance for loan losses                                                 | (653,162)           |                 |              | (676,296)           |                 |              | (778,386)           |                 |              |
| Total non-interest-earning assets                                         | 67,585,261          |                 |              | 57,374,250          |                 |              | 51,783,714          |                 |              |
| <b>Total assets</b>                                                       | <b>¥199,432,383</b> |                 |              | <b>¥181,603,895</b> |                 |              | <b>¥177,806,206</b> |                 |              |
| Total assets attributable to foreign offices                              | 23.9%               |                 |              | 23.4%               |                 |              | 24.5%               |                 |              |

For the fiscal year ended March 31,

|                                                                      | 2018                |                  |              | 2017                |                  |              | 2016                |                  |              |
|----------------------------------------------------------------------|---------------------|------------------|--------------|---------------------|------------------|--------------|---------------------|------------------|--------------|
|                                                                      | 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                                                     | ¥ 87,138,742        | ¥ 44,941         | 0.05%        | ¥ 82,738,015        | ¥ 35,881         | 0.04%        | ¥ 78,458,170        | ¥ 48,032         | 0.06%        |
| Foreign offices                                                      | 25,413,734          | 337,812          | 1.33%        | 23,383,002          | 213,147          | 0.91%        | 22,838,530          | 154,280          | 0.68%        |
| Total                                                                | 112,552,476         | 382,753          | 0.34%        | 106,121,017         | 249,028          | 0.23%        | 101,296,700         | 202,312          | 0.20%        |
| Call money and bills sold:                                           |                     |                  |              |                     |                  |              |                     |                  |              |
| Domestic offices                                                     | 845,376             | 302              | 0.04%        | 603,065             | 92               | 0.02%        | 2,199,407           | 1,524            | 0.07%        |
| Foreign offices                                                      | 801,565             | 8,461            | 1.06%        | 618,949             | 5,194            | 0.84%        | 663,310             | 4,059            | 0.61%        |
| Total                                                                | 1,646,941           | 8,763            | 0.53%        | 1,222,014           | 5,286            | 0.43%        | 2,862,717           | 5,583            | 0.20%        |
| Repurchase agreements and cash collateral on securities lent:        |                     |                  |              |                     |                  |              |                     |                  |              |
| Domestic offices                                                     | 10,015,944          | 16,774           | 0.17%        | 7,149,638           | 5,616            | 0.08%        | 7,172,312           | 8,582            | 0.12%        |
| Foreign offices                                                      | 4,205,510           | 44,567           | 1.06%        | 3,081,806           | 15,007           | 0.49%        | 2,009,593           | 6,523            | 0.32%        |
| Total                                                                | 14,221,454          | 61,341           | 0.43%        | 10,231,444          | 20,623           | 0.20%        | 9,181,905           | 15,105           | 0.16%        |
| Trading liabilities <sup>(1)</sup> :                                 |                     |                  |              |                     |                  |              |                     |                  |              |
| Domestic offices                                                     | 2,038,711           | 6,086            | 0.30%        | 2,015,061           | 10,839           | 0.54%        | 2,243,856           | 17,241           | 0.77%        |
| Foreign offices                                                      | 77,691              | 1,922            | 2.47%        | 52,065              | 616              | 1.18%        | 25,565              | 483              | 1.89%        |
| Total                                                                | 2,116,402           | 8,008            | 0.38%        | 2,067,126           | 11,455           | 0.55%        | 2,269,421           | 17,724           | 0.78%        |
| Borrowings:                                                          |                     |                  |              |                     |                  |              |                     |                  |              |
| Domestic offices                                                     | 11,331,752          | 61,460           | 0.54%        | 8,113,368           | 58,772           | 0.72%        | 10,251,890          | 56,353           | 0.55%        |
| Foreign offices                                                      | 983,616             | 27,736           | 2.82%        | 847,353             | 21,063           | 2.49%        | 823,446             | 15,850           | 1.92%        |
| Total                                                                | 12,315,368          | 89,196           | 0.72%        | 8,960,721           | 79,835           | 0.89%        | 11,075,336          | 72,203           | 0.65%        |
| Debt securities in issue:                                            |                     |                  |              |                     |                  |              |                     |                  |              |
| Domestic offices                                                     | 9,298,368           | 166,769          | 1.79%        | 8,320,124           | 130,613          | 1.57%        | 7,999,705           | 120,285          | 1.50%        |
| Foreign offices                                                      | 2,180,438           | 24,005           | 1.10%        | 2,193,406           | 16,324           | 0.74%        | 3,044,714           | 14,887           | 0.49%        |
| Total                                                                | 11,478,806          | 190,774          | 1.66%        | 10,513,530          | 146,937          | 1.40%        | 11,044,419          | 135,172          | 1.22%        |
| Other interest-bearing liabilities:                                  |                     |                  |              |                     |                  |              |                     |                  |              |
| Domestic offices                                                     | 102,683             | 524              | 0.51%        | 95,660              | 579              | 0.61%        | 93,104              | 676              | 0.73%        |
| Foreign offices                                                      | 23,466              | 618              | 2.63%        | 3,531               | 50               | 1.42%        | 1,960               | 50               | 2.55%        |
| Total                                                                | 126,149             | 1,142            | 0.91%        | 99,191              | 629              | 0.63%        | 95,064              | 726              | 0.76%        |
| Total interest-bearing liabilities:                                  |                     |                  |              |                     |                  |              |                     |                  |              |
| Domestic offices                                                     | 120,771,576         | 296,856          | 0.25%        | 109,034,931         | 242,392          | 0.22%        | 108,418,444         | 252,693          | 0.23%        |
| Foreign offices                                                      | 33,686,020          | 445,121          | 1.32%        | 30,180,112          | 271,401          | 0.90%        | 29,407,118          | 196,132          | 0.67%        |
| Total                                                                | 154,457,596         | ¥ 741,977        | 0.48%        | 139,215,043         | ¥ 513,793        | 0.37%        | 137,825,562         | ¥ 448,825        | 0.33%        |
| <b>Non-interest-bearing liabilities:</b>                             |                     |                  |              |                     |                  |              |                     |                  |              |
| Non-interest-bearing demand deposits                                 | 19,997,470          |                  |              | 17,736,696          |                  |              | 14,715,274          |                  |              |
| Other non-interest-bearing liabilities                               | 11,490,957          |                  |              | 12,230,267          |                  |              | 12,999,027          |                  |              |
| Total non-interest-bearing liabilities                               | 31,488,427          |                  |              | 29,966,963          |                  |              | 27,714,301          |                  |              |
| <b>Total equity</b>                                                  | <b>13,486,360</b>   |                  |              | <b>12,421,889</b>   |                  |              | <b>12,266,343</b>   |                  |              |
| <b>Total equity and liabilities</b>                                  | <b>¥199,432,383</b> |                  |              | <b>¥181,603,895</b> |                  |              | <b>¥177,806,206</b> |                  |              |
| Total liabilities attributable to foreign offices                    | 20.2%               |                  |              | 20.2%               |                  |              | 20.5%               |                  |              |
| Net interest income and interest rate spread                         | ¥1,406,870          | 1.15%            |              | ¥1,397,088          | 1.17%            |              | ¥1,450,683          | 1.18%            |              |
| Net interest income as a percentage of total interest-earning assets |                     | 1.07%            |              |                     | 1.12%            |              |                     | 1.15%            |              |

- (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, 2018 compared to the fiscal year ended March 31, 2017 and for the fiscal year ended March 31, 2017 compared to the fiscal year ended March 31, 2016.

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, 2018<br>compared to<br>fiscal year ended March 31, 2017<br>Increase / (decrease) |          |            | Fiscal year ended March 31, 2017<br>compared to<br>fiscal year ended March 31, 2016<br>Increase / (decrease) |           |            |
|---------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|----------|------------|--------------------------------------------------------------------------------------------------------------|-----------|------------|
|                                                                           | Volume                                                                                                       | Rate     | Net change | Volume                                                                                                       | Rate      | Net change |
| (In millions)                                                             |                                                                                                              |          |            |                                                                                                              |           |            |
| <b>Interest income:</b>                                                   |                                                                                                              |          |            |                                                                                                              |           |            |
| Interest-earning deposits with other banks:                               |                                                                                                              |          |            |                                                                                                              |           |            |
| Domestic offices                                                          | ¥ 456                                                                                                        | ¥ (19)   | ¥ 437      | ¥ (40)                                                                                                       | ¥ (632)   | ¥ (672)    |
| Foreign offices                                                           | 2,427                                                                                                        | 29,583   | 32,010     | (8,263)                                                                                                      | 14,233    | 5,970      |
| Total                                                                     | 2,883                                                                                                        | 29,564   | 32,447     | (8,303)                                                                                                      | 13,601    | 5,298      |
| Call loans and bills bought:                                              |                                                                                                              |          |            |                                                                                                              |           |            |
| Domestic offices                                                          | 30                                                                                                           | (85)     | (55)       | (436)                                                                                                        | 42        | (394)      |
| Foreign offices                                                           | 4,321                                                                                                        | 3,031    | 7,352      | 5,697                                                                                                        | (15,066)  | (9,369)    |
| Total                                                                     | 4,351                                                                                                        | 2,946    | 7,297      | 5,261                                                                                                        | (15,024)  | (9,763)    |
| Reverse repurchase agreements and cash collateral on securities borrowed: |                                                                                                              |          |            |                                                                                                              |           |            |
| Domestic offices                                                          | 1,140                                                                                                        | 1,272    | 2,412      | 1,229                                                                                                        | 159       | 1,388      |
| Foreign offices                                                           | 4,049                                                                                                        | 3,959    | 8,008      | 4,487                                                                                                        | 1,715     | 6,202      |
| Total                                                                     | 5,189                                                                                                        | 5,231    | 10,420     | 5,716                                                                                                        | 1,874     | 7,590      |
| Trading assets <sup>(1)</sup> :                                           |                                                                                                              |          |            |                                                                                                              |           |            |
| Domestic offices                                                          | (765)                                                                                                        | (6,043)  | (6,808)    | (3,503)                                                                                                      | (9,005)   | (12,508)   |
| Foreign offices                                                           | 923                                                                                                          | 65       | 988        | 534                                                                                                          | 95        | 629        |
| Total                                                                     | 158                                                                                                          | (5,978)  | (5,820)    | (2,969)                                                                                                      | (8,910)   | (11,879)   |
| Financial assets at fair value through profit or loss <sup>(2)</sup> :    |                                                                                                              |          |            |                                                                                                              |           |            |
| Domestic offices                                                          | (23)                                                                                                         | —        | (23)       | (125)                                                                                                        | (4,300)   | (4,425)    |
| Held-to-maturity investments:                                             |                                                                                                              |          |            |                                                                                                              |           |            |
| Domestic offices                                                          | (4,139)                                                                                                      | 627      | (3,512)    | (4,455)                                                                                                      | (1,669)   | (6,124)    |
| Available-for-sale financial assets:                                      |                                                                                                              |          |            |                                                                                                              |           |            |
| Domestic offices                                                          | 11,440                                                                                                       | (8,948)  | 2,492      | (14,692)                                                                                                     | 17,552    | 2,860      |
| Foreign offices                                                           | 6,686                                                                                                        | 9,281    | 15,967     | 6,939                                                                                                        | (1,239)   | 5,700      |
| Total                                                                     | 18,126                                                                                                       | 333      | 18,459     | (7,753)                                                                                                      | 16,313    | 8,560      |
| Loans and advances:                                                       |                                                                                                              |          |            |                                                                                                              |           |            |
| Domestic offices                                                          | 25,753                                                                                                       | (14,227) | 11,526     | 63,231                                                                                                       | (72,711)  | (9,480)    |
| Foreign offices                                                           | 76,079                                                                                                       | 91,093   | 167,172    | (23,302)                                                                                                     | 54,898    | 31,596     |
| Total                                                                     | 101,832                                                                                                      | 76,866   | 178,698    | 39,929                                                                                                       | (17,813)  | 22,116     |
| Total interest income:                                                    |                                                                                                              |          |            |                                                                                                              |           |            |
| Domestic offices                                                          | 33,892                                                                                                       | (27,423) | 6,469      | 41,209                                                                                                       | (70,564)  | (29,355)   |
| Foreign offices                                                           | 94,485                                                                                                       | 137,012  | 231,497    | (13,908)                                                                                                     | 54,636    | 40,728     |
| Total                                                                     | ¥128,377                                                                                                     | ¥109,589 | ¥237,966   | ¥ 27,301                                                                                                     | ¥(15,928) | ¥ 11,373   |

|                                                               | Fiscal year ended March 31, 2018<br>compared to<br>fiscal year ended March 31, 2017<br>Increase / (decrease) |            |            | Fiscal year ended March 31, 2017<br>compared to<br>fiscal year ended March 31, 2016<br>Increase / (decrease) |            |            |
|---------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|------------|------------|--------------------------------------------------------------------------------------------------------------|------------|------------|
|                                                               | Volume                                                                                                       | Rate       | Net change | Volume                                                                                                       | Rate       | Net change |
| (In millions)                                                 |                                                                                                              |            |            |                                                                                                              |            |            |
| <b>Interest expense:</b>                                      |                                                                                                              |            |            |                                                                                                              |            |            |
| Deposits:                                                     |                                                                                                              |            |            |                                                                                                              |            |            |
| Domestic offices                                              | ¥ 1,837                                                                                                      | ¥ 7,223    | ¥ 9,060    | ¥ 2,448                                                                                                      | ¥ (14,599) | ¥ (12,151) |
| Foreign offices                                               | 19,830                                                                                                       | 104,835    | 124,665    | 3,785                                                                                                        | 55,082     | 58,867     |
| Total                                                         | 21,667                                                                                                       | 112,058    | 133,725    | 6,233                                                                                                        | 40,483     | 46,716     |
| Call money and bills sold:                                    |                                                                                                              |            |            |                                                                                                              |            |            |
| Domestic offices                                              | 62                                                                                                           | 148        | 210        | (715)                                                                                                        | (717)      | (1,432)    |
| Foreign offices                                               | 1,747                                                                                                        | 1,520      | 3,267      | (286)                                                                                                        | 1,421      | 1,135      |
| Total                                                         | 1,809                                                                                                        | 1,668      | 3,477      | (1,001)                                                                                                      | 704        | (297)      |
| Repurchase agreements and cash collateral on securities lent: |                                                                                                              |            |            |                                                                                                              |            |            |
| Domestic offices                                              | 2,971                                                                                                        | 8,187      | 11,158     | (27)                                                                                                         | (2,939)    | (2,966)    |
| Foreign offices                                               | 7,035                                                                                                        | 22,525     | 29,560     | 4,344                                                                                                        | 4,140      | 8,484      |
| Total                                                         | 10,006                                                                                                       | 30,712     | 40,718     | 4,317                                                                                                        | 1,201      | 5,518      |
| Trading liabilities <sup>(1)</sup> :                          |                                                                                                              |            |            |                                                                                                              |            |            |
| Domestic offices                                              | 126                                                                                                          | (4,879)    | (4,753)    | (1,628)                                                                                                      | (4,774)    | (6,402)    |
| Foreign offices                                               | 405                                                                                                          | 901        | 1,306      | 363                                                                                                          | (230)      | 133        |
| Total                                                         | 531                                                                                                          | (3,978)    | (3,447)    | (1,265)                                                                                                      | (5,004)    | (6,269)    |
| Borrowings:                                                   |                                                                                                              |            |            |                                                                                                              |            |            |
| Domestic offices                                              | 19,619                                                                                                       | (16,931)   | 2,688      | (13,227)                                                                                                     | 15,646     | 2,419      |
| Foreign offices                                               | 3,639                                                                                                        | 3,034      | 6,673      | 471                                                                                                          | 4,742      | 5,213      |
| Total                                                         | 23,258                                                                                                       | (13,897)   | 9,361      | (12,756)                                                                                                     | 20,388     | 7,632      |
| Debt securities in issue:                                     |                                                                                                              |            |            |                                                                                                              |            |            |
| Domestic offices                                              | 16,340                                                                                                       | 19,816     | 36,156     | 4,910                                                                                                        | 5,418      | 10,328     |
| Foreign offices                                               | (97)                                                                                                         | 7,778      | 7,681      | (4,925)                                                                                                      | 6,362      | 1,437      |
| Total                                                         | 16,243                                                                                                       | 27,594     | 43,837     | (15)                                                                                                         | 11,780     | 11,765     |
| Other interest-bearing liabilities:                           |                                                                                                              |            |            |                                                                                                              |            |            |
| Domestic offices                                              | 41                                                                                                           | (96)       | (55)       | 18                                                                                                           | (115)      | (97)       |
| Foreign offices                                               | 493                                                                                                          | 75         | 568        | 29                                                                                                           | (29)       | 0          |
| Total                                                         | 534                                                                                                          | (21)       | 513        | 47                                                                                                           | (144)      | (97)       |
| Total interest expense:                                       |                                                                                                              |            |            |                                                                                                              |            |            |
| Domestic offices                                              | 40,996                                                                                                       | 13,468     | 54,464     | (8,221)                                                                                                      | (2,080)    | (10,301)   |
| Foreign offices                                               | 33,052                                                                                                       | 140,668    | 173,720    | 3,781                                                                                                        | 71,488     | 75,269     |
| Total                                                         | ¥ 74,048                                                                                                     | ¥ 154,136  | ¥ 228,184  | ¥ (4,440)                                                                                                    | ¥ 69,408   | ¥ 64,968   |
| <b>Net interest income:</b>                                   |                                                                                                              |            |            |                                                                                                              |            |            |
| Domestic offices                                              | ¥ (7,104)                                                                                                    | ¥ (40,891) | ¥ (47,995) | ¥ 49,430                                                                                                     | ¥ (68,484) | ¥ (19,054) |
| Foreign offices                                               | 61,433                                                                                                       | (3,656)    | 57,777     | (17,689)                                                                                                     | (16,852)   | (34,541)   |
| Total                                                         | ¥ 54,329                                                                                                     | ¥ (44,547) | ¥ 9,782    | ¥ 31,741                                                                                                     | ¥ (85,336) | ¥ (53,595) |

(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, 2018, 2017 and 2016 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, 2018. 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<br>one year |         | Later than<br>one year and<br>not later than<br>five years |         | Later than<br>five years and<br>not later than<br>ten years |         | Later than<br>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                                      | ¥ 92,033                   | 1.38%   | ¥ 280,426                                                  | 0.13%   | ¥ —                                                         | —       | ¥ —                     | —     | ¥ 372,459   | 0.44%   |
| Japanese municipal bonds                                       | —                          | —       | —                                                          | —       | —                                                           | —       | —                       | —     | —           | —       |
| Japanese corporate bonds                                       | —                          | —       | —                                                          | —       | —                                                           | —       | —                       | —     | —           | —       |
| Total domestic                                                 | 92,033                     | 1.38%   | 280,426                                                    | 0.13%   | —                                                           | —       | —                       | —     | 372,459     | 0.44%   |
| Foreign:                                                       |                            |         |                                                            |         |                                                             |         |                         |       |             |         |
| U.S. Treasury and other U.S.<br>government agency bonds        | —                          | —       | —                                                          | —       | —                                                           | —       | —                       | —     | —           | —       |
| Bonds issued by other governments and<br>official institutions | —                          | —       | —                                                          | —       | —                                                           | —       | —                       | —     | —           | —       |
| Other debt instruments                                         | —                          | —       | —                                                          | —       | —                                                           | —       | —                       | —     | —           | —       |
| Total foreign                                                  | —                          | —       | —                                                          | —       | —                                                           | —       | —                       | —     | —           | —       |
| Total                                                          | ¥ 92,033                   | 1.38%   | ¥ 280,426                                                  | 0.13%   | ¥ —                                                         | —       | ¥ —                     | —     | ¥ 372,459   | 0.44%   |
| <b>Available-for-sale financial assets:</b>                    |                            |         |                                                            |         |                                                             |         |                         |       |             |         |
| Domestic:                                                      |                            |         |                                                            |         |                                                             |         |                         |       |             |         |
| Japanese government bonds                                      | ¥3,077,986                 | (0.24%) | ¥3,937,851                                                 | (0.04%) | ¥ 348,772                                                   | (0.02%) | ¥ 320,694               | 0.51% | ¥ 7,685,303 | (0.09%) |
| Japanese municipal bonds                                       | 18                         | 2.50%   | 21,741                                                     | 0.05%   | 25,255                                                      | 0.12%   | 18                      | 1.73% | 47,032      | 0.09%   |
| Japanese corporate bonds                                       | —                          | —       | 74,984                                                     | 0.07%   | 48,676                                                      | 0.19%   | 172,941                 | 0.52% | 296,601     | 0.35%   |
| Total domestic                                                 | 3,078,004                  | (0.24%) | 4,034,576                                                  | (0.03%) | 422,703                                                     | 0.01%   | 493,653                 | 0.51% | 8,028,936   | (0.06%) |
| Foreign:                                                       |                            |         |                                                            |         |                                                             |         |                         |       |             |         |
| U.S. Treasury and other U.S.<br>government agency bonds        | 236,819                    | 1.14%   | 1,367,758                                                  | 1.68%   | 1,540,584                                                   | 1.75%   | 101,485                 | 2.88% | 3,246,646   | 1.71%   |
| Bonds issued by other governments and<br>official institutions | 1,495,513                  | 1.23%   | 198,506                                                    | 2.19%   | 315,968                                                     | 0.53%   | 177,463                 | 0.60% | 2,187,450   | 1.16%   |
| Mortgage-backed securities <sup>(1)</sup>                      | —                          | —       | —                                                          | —       | 232                                                         | 1.81%   | 487,951                 | 3.00% | 488,183     | 3.00%   |
| Other debt instruments                                         | 223,848                    | 3.19%   | 56,973                                                     | 3.95%   | 34,429                                                      | 1.65%   | 16,241                  | 0.43% | 331,491     | 3.03%   |
| Total foreign                                                  | 1,956,180                  | 1.44%   | 1,623,237                                                  | 1.82%   | 1,891,213                                                   | 1.56%   | 783,140                 | 2.39% | 6,253,770   | 1.69%   |
| Total                                                          | ¥5,034,184                 | 0.42%   | ¥5,657,813                                                 | 0.50%   | ¥2,313,916                                                  | 1.29%   | ¥1,276,793              | 1.69% | ¥14,282,706 | 0.71%   |

(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, 2018.

### III. Loan Portfolio

The following table shows our outstanding loans and advances by the domicile and industry type of the borrowers at March 31, 2018, 2017, 2016, 2015 and 2014. 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,  |             |             |             |             |
|------------------------------------------------------------------------------------|---------------|-------------|-------------|-------------|-------------|
|                                                                                    | 2018          | 2017        | 2016        | 2015        | 2014        |
|                                                                                    | (In millions) |             |             |             |             |
| <b>Domestic:</b>                                                                   |               |             |             |             |             |
| Manufacturing .....                                                                | ¥ 7,961,620   | ¥ 9,578,147 | ¥ 8,298,576 | ¥ 8,061,654 | ¥ 8,018,568 |
| Agriculture, forestry, fisheries and mining .....                                  | 145,957       | 174,021     | 184,314     | 171,855     | 177,012     |
| Construction .....                                                                 | 947,765       | 1,151,989   | 1,169,900   | 1,150,616   | 1,152,388   |
| Transportation, communications and public enterprises .....                        | 5,424,054     | 5,365,225   | 5,258,899   | 5,175,949   | 5,086,361   |
| Wholesale and retail .....                                                         | 5,288,767     | 5,721,005   | 5,548,103   | 5,664,385   | 5,505,570   |
| Finance and insurance .....                                                        | 2,777,862     | 2,844,546   | 2,684,865   | 2,869,967   | 2,537,347   |
| Real estate and goods rental and leasing .....                                     | 9,017,664     | 10,101,846  | 9,587,757   | 8,766,724   | 8,117,000   |
| Services .....                                                                     | 4,255,228     | 4,885,247   | 4,960,352   | 4,776,706   | 4,855,536   |
| Municipalities .....                                                               | 1,000,286     | 1,216,211   | 1,374,306   | 1,353,949   | 1,279,010   |
| Lease financing .....                                                              | 14,629        | 2,706,641   | 2,212,048   | 2,211,773   | 2,133,760   |
| Consumer <sup>(1)</sup> .....                                                      | 16,363,489    | 19,096,755  | 18,935,521  | 18,817,259  | 19,086,241  |
| Others .....                                                                       | 4,633,306     | 5,178,461   | 2,989,278   | 3,211,240   | 3,159,438   |
| Total domestic .....                                                               | 57,830,627    | 68,020,094  | 63,203,919  | 62,232,077  | 61,108,231  |
| <b>Foreign:</b>                                                                    |               |             |             |             |             |
| Public sector .....                                                                | 372,008       | 299,746     | 236,290     | 164,495     | 163,685     |
| Financial institutions .....                                                       | 4,496,646     | 4,588,001   | 4,067,764   | 3,880,655   | 3,450,482   |
| Commerce and industry .....                                                        | 21,023,885    | 21,041,905  | 20,451,545  | 20,010,729  | 16,435,047  |
| Lease financing .....                                                              | 357,660       | 404,658     | 357,072     | 308,128     | 267,394     |
| Others .....                                                                       | 1,779,101     | 1,836,322   | 1,481,455   | 1,375,624   | 947,826     |
| Total foreign .....                                                                | 28,029,300    | 28,170,632  | 26,594,126  | 25,739,631  | 21,264,434  |
| Gross loans and advances .....                                                     | 85,859,927    | 96,190,726  | 89,798,045  | 87,971,708  | 82,372,665  |
| Adjust: Unearned income, unamortized premiums-net and deferred loan fees-net ..... | (239,181)     | (236,425)   | (212,957)   | (206,440)   | (177,018)   |
| Less: Allowance for loan losses .....                                              | (491,676)     | (680,456)   | (722,717)   | (793,552)   | (950,665)   |
| Net loans and advances .....                                                       | ¥85,129,070   | ¥95,273,845 | ¥88,862,371 | ¥86,971,716 | ¥81,244,982 |

(1) The balance in Consumer mainly consists of housing loans. The housing loan balances amounted to ¥11,482,678 million, ¥13,766,771 million, ¥13,984,755 million, ¥14,087,453 million and ¥14,420,225 million at March 31, 2018, 2017, 2016, 2015 and 2014, 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, 2018.

|                                                                    |   | Maturity                   |                                                         |                          |       |            |   |            |
|--------------------------------------------------------------------|---|----------------------------|---------------------------------------------------------|--------------------------|-------|------------|---|------------|
|                                                                    |   | Not later than<br>one year | Later than one<br>year and not later<br>than five years | Later than five<br>years | Total |            |   |            |
|                                                                    |   | (In millions)              |                                                         |                          |       |            |   |            |
| <b>Domestic:</b>                                                   |   |                            |                                                         |                          |       |            |   |            |
| Manufacturing . . . . .                                            | ¥ | 4,173,663                  | ¥                                                       | 2,482,639                | ¥     | 1,305,318  | ¥ | 7,961,620  |
| Agriculture, forestry, fisheries and mining . . . .                |   | 38,917                     |                                                         | 65,018                   |       | 42,022     |   | 145,957    |
| Construction . . . . .                                             |   | 512,223                    |                                                         | 320,893                  |       | 114,649    |   | 947,765    |
| Transportation, communications and public<br>enterprises . . . . . |   | 1,810,550                  |                                                         | 2,289,942                |       | 1,323,562  |   | 5,424,054  |
| Wholesale and retail . . . . .                                     |   | 2,976,092                  |                                                         | 1,789,409                |       | 523,266    |   | 5,288,767  |
| Finance and insurance . . . . .                                    |   | 1,605,481                  |                                                         | 901,362                  |       | 271,019    |   | 2,777,862  |
| Real estate and goods rental and leasing . . . . .                 |   | 1,966,419                  |                                                         | 3,802,558                |       | 3,248,687  |   | 9,017,664  |
| Services . . . . .                                                 |   | 1,288,816                  |                                                         | 1,849,411                |       | 1,117,001  |   | 4,255,228  |
| Municipalities . . . . .                                           |   | 446,525                    |                                                         | 314,224                  |       | 239,537    |   | 1,000,286  |
| Lease financing . . . . .                                          |   | 2,229                      |                                                         | 4,787                    |       | 7,613      |   | 14,629     |
| Consumer . . . . .                                                 |   | 3,678,228                  |                                                         | 4,181,407                |       | 8,503,854  |   | 16,363,489 |
| Others . . . . .                                                   |   | 1,939,994                  |                                                         | 1,002,939                |       | 1,690,373  |   | 4,633,306  |
| Total domestic . . . . .                                           |   | 20,439,137                 |                                                         | 19,004,589               |       | 18,386,901 |   | 57,830,627 |
| <b>Foreign:</b>                                                    |   |                            |                                                         |                          |       |            |   |            |
| Public sector . . . . .                                            |   | 24,867                     |                                                         | 292,206                  |       | 54,935     |   | 372,008    |
| Financial institutions . . . . .                                   |   | 2,039,934                  |                                                         | 2,152,491                |       | 304,221    |   | 4,496,646  |
| Commerce and industry . . . . .                                    |   | 6,651,323                  |                                                         | 10,046,923               |       | 4,325,639  |   | 21,023,885 |
| Lease financing . . . . .                                          |   | 45,285                     |                                                         | 236,466                  |       | 75,909     |   | 357,660    |
| Others . . . . .                                                   |   | 555,118                    |                                                         | 879,785                  |       | 344,198    |   | 1,779,101  |
| Total foreign . . . . .                                            |   | 9,316,527                  |                                                         | 13,607,871               |       | 5,104,902  |   | 28,029,300 |
| Total . . . . .                                                    | ¥ | 29,755,664                 | ¥                                                       | 32,612,460               | ¥     | 23,491,803 | ¥ | 85,859,927 |

The above loans and advances due after one year which had predetermined interest rates and floating or adjustable interest rates at March 31, 2018 are shown below:

|                                       | Domestic      | Foreign     | Total       |
|---------------------------------------|---------------|-------------|-------------|
|                                       | (In millions) |             |             |
| Predetermined rate . . . . .          | ¥12,233,092   | ¥ 2,343,758 | ¥14,576,850 |
| Floating or adjustable rate . . . . . | 25,158,398    | 16,369,015  | 41,527,413  |
| Total . . . . .                       | ¥37,391,490   | ¥18,712,773 | ¥56,104,263 |

### ***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, 2018, 2017, 2016, 2015 and 2014 by the domicile and industry type of the borrowers.

|                                                                                      | At March 31,  |           |           |           |             |
|--------------------------------------------------------------------------------------|---------------|-----------|-----------|-----------|-------------|
|                                                                                      | 2018          | 2017      | 2016      | 2015      | 2014        |
|                                                                                      | (In millions) |           |           |           |             |
| <b>Potentially bankrupt, effectively bankrupt and bankrupt (loans and advances):</b> |               |           |           |           |             |
| Domestic:                                                                            |               |           |           |           |             |
| Manufacturing . . . . .                                                              | ¥ 62,322      | ¥ 106,178 | ¥ 119,318 | ¥ 149,686 | ¥ 183,257   |
| Agriculture, forestry, fisheries and mining . . . . .                                | 6,369         | 2,250     | 2,843     | 7,146     | 3,251       |
| Construction . . . . .                                                               | 10,439        | 24,430    | 25,932    | 36,903    | 69,144      |
| Transportation, communications and public enterprises . . . . .                      | 15,494        | 23,692    | 38,008    | 52,168    | 56,782      |
| Wholesale and retail . . . . .                                                       | 74,332        | 104,472   | 125,241   | 156,753   | 208,491     |
| Finance and insurance . . . . .                                                      | 3,021         | 4,135     | 8,302     | 9,551     | 13,378      |
| Real estate and goods rental and leasing . . . . .                                   | 32,634        | 126,179   | 133,324   | 198,714   | 291,665     |
| Services . . . . .                                                                   | 50,858        | 91,943    | 126,781   | 161,384   | 192,191     |
| Lease financing . . . . .                                                            | —             | 7,513     | 16,122    | 18,522    | 21,079      |
| Consumer . . . . .                                                                   | 157,221       | 194,721   | 213,931   | 223,464   | 238,563     |
| Others . . . . .                                                                     | 23,081        | 25,059    | 32,503    | 43,443    | 59,812      |
| Total domestic . . . . .                                                             | 435,771       | 710,572   | 842,305   | 1,057,734 | 1,337,613   |
| Foreign:                                                                             |               |           |           |           |             |
| Public sector . . . . .                                                              | —             | —         | 31        | 14        | 14          |
| Financial institutions . . . . .                                                     | 30            | 29        | 28        | 19,720    | 2,647       |
| Commerce and industry . . . . .                                                      | 144,975       | 157,227   | 148,475   | 146,821   | 131,254     |
| Lease financing . . . . .                                                            | —             | 11,892    | 11,104    | 8,969     | 8,623       |
| Others . . . . .                                                                     | 22,383        | 23,890    | 5,682     | 6,152     | 4,566       |
| Total foreign . . . . .                                                              | 167,388       | 193,038   | 165,320   | 181,676   | 147,104     |
| Total . . . . .                                                                      | 603,159       | 903,610   | 1,007,625 | 1,239,410 | 1,484,717   |
| <b>Past due three months or more (loans):</b>                                        |               |           |           |           |             |
| Domestic . . . . .                                                                   | 21,649        | 20,808    | 21,861    | 23,586    | 25,959      |
| Foreign . . . . .                                                                    | —             | 11,449    | 7,962     | 398       | 437         |
| Total . . . . .                                                                      | 21,649        | 32,257    | 29,823    | 23,984    | 26,396      |
| <b>Restructured (loans):</b>                                                         |               |           |           |           |             |
| Domestic . . . . .                                                                   | 136,582       | 155,100   | 164,035   | 144,628   | 247,351     |
| Foreign . . . . .                                                                    | 17,567        | 25,741    | 22,401    | 43,330    | 37,475      |
| Total . . . . .                                                                      | 154,149       | 180,841   | 186,436   | 187,958   | 284,826     |
| <b>Other impaired (loans and advances):</b>                                          |               |           |           |           |             |
| Domestic . . . . .                                                                   | 93,175        | 103,777   | 126,211   | 140,858   | 152,873     |
| Foreign . . . . .                                                                    | 6,736         | 8,203     | 2,492     | 5,892     | 1           |
| Total . . . . .                                                                      | 99,911        | 111,980   | 128,703   | 146,750   | 152,874     |
| Gross impaired loans and advances . . . . .                                          | 878,868       | 1,228,688 | 1,352,587 | 1,598,102 | 1,948,813   |
| Less: Allowance for loan losses for impaired loans and advances . . . . .            | (369,386)     | (532,451) | (613,510) | (699,207) | (857,095)   |
| Net impaired loans and advances . . . . .                                            | ¥ 509,482     | ¥ 696,237 | ¥ 739,077 | ¥ 898,895 | ¥ 1,091,718 |

### ***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, 2018 was ¥26.9 billion, of which ¥14.7 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, 2018 was ¥5.8 billion, of which ¥4.2 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, 2018, 2017 and 2016.

| At March 31, 2018    |                                   |          |            |            |                      |                        |
|----------------------|-----------------------------------|----------|------------|------------|----------------------|------------------------|
|                      | Public<br>institutions            | Banks    | Others     | Total      | % of total<br>assets | Undrawn<br>commitments |
|                      | (In millions, except percentages) |          |            |            |                      |                        |
| United Kingdom ..... | ¥ 5,507                           | ¥222,918 | ¥1,425,584 | ¥1,654,009 | 0.86%                | ¥1,242,180             |
| At March 31, 2017    |                                   |          |            |            |                      |                        |
|                      | Public<br>institutions            | Banks    | Others     | Total      | % of total<br>assets | Undrawn<br>commitments |
|                      | (In millions, except percentages) |          |            |            |                      |                        |
| United Kingdom ..... | ¥ 4,403                           | ¥275,243 | ¥1,451,955 | ¥1,731,601 | 0.91%                | ¥1,560,865             |
| At March 31, 2016    |                                   |          |            |            |                      |                        |
|                      | Public<br>institutions            | Banks    | Others     | Total      | % of total<br>assets | Undrawn<br>commitments |
|                      | (In millions, except percentages) |          |            |            |                      |                        |
| United Kingdom ..... | ¥ 1,852                           | ¥556,271 | ¥1,215,588 | ¥1,773,711 | 0.98%                | ¥1,422,058             |

### ***Loan Concentrations***

At March 31, 2018, 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, 2018, 2017, 2016, 2015 and 2014.

|                                                                         | For the fiscal year ended March 31, |           |           |           |            |
|-------------------------------------------------------------------------|-------------------------------------|-----------|-----------|-----------|------------|
|                                                                         | 2018                                | 2017      | 2016      | 2015      | 2014       |
|                                                                         | (In millions, except percentages)   |           |           |           |            |
| Allowance for loan losses at beginning of period                        | ¥ 680,456                           | ¥ 722,717 | ¥ 793,552 | ¥ 950,665 | ¥1,262,478 |
| Provision (credit) for loan losses                                      | 126,623                             | 141,457   | 118,750   | 79,552    | (25,806)   |
| <b>Charge-offs:</b>                                                     |                                     |           |           |           |            |
| Domestic:                                                               |                                     |           |           |           |            |
| Manufacturing                                                           | 6,439                               | 9,712     | 20,992    | 26,516    | 25,610     |
| Agriculture, forestry, fisheries and mining                             | 1,772                               | 388       | 33        | 112       | 187        |
| Construction                                                            | 1,478                               | 1,810     | 6,407     | 8,593     | 20,958     |
| Transportation, communications and public enterprises                   | 1,609                               | 9,731     | 5,891     | 8,662     | 5,309      |
| Wholesale and retail                                                    | 10,998                              | 13,293    | 14,824    | 27,357    | 27,944     |
| Finance and insurance                                                   | 121                                 | 16        | 423       | 1,117     | 533        |
| Real estate and goods rental and leasing                                | 12,947                              | 6,246     | 21,017    | 54,003    | 73,025     |
| Services                                                                | 9,548                               | 5,731     | 14,396    | 21,143    | 30,970     |
| Lease financing                                                         | 511                                 | 454       | 651       | 1,433     | 1,582      |
| Consumer                                                                | 112,265                             | 102,383   | 87,969    | 88,795    | 93,616     |
| Others                                                                  | 3,838                               | 7,609     | 828       | 2,932     | 3,300      |
| Total domestic                                                          | 161,526                             | 157,373   | 173,431   | 240,663   | 283,034    |
| Foreign:                                                                |                                     |           |           |           |            |
| Financial institutions                                                  | —                                   | —         | —         | 1,017     | 599        |
| Commerce and industry                                                   | 13,529                              | 24,658    | 13,236    | 4,571     | 14,959     |
| Lease financing                                                         | 24                                  | 177       | 3         | 167       | 1,292      |
| Others                                                                  | 9,981                               | 8,300     | 6,979     | 3,478     | 2,797      |
| Total foreign                                                           | 23,534                              | 33,135    | 20,218    | 9,233     | 19,647     |
| Total                                                                   | 185,060                             | 190,508   | 193,649   | 249,896   | 302,681    |
| <b>Recoveries:</b>                                                      |                                     |           |           |           |            |
| Domestic:                                                               |                                     |           |           |           |            |
| Manufacturing                                                           | 27                                  | 61        | 80        | 62        | 12         |
| Agriculture, forestry, fisheries and mining                             | —                                   | 5         | —         | —         | —          |
| Construction                                                            | 5                                   | 6         | 6         | 17        | 16         |
| Transportation, communications and public enterprises                   | 1                                   | 62        | 5         | 14        | 3          |
| Wholesale and retail                                                    | 28                                  | 86        | 45        | 72        | 19         |
| Finance and insurance                                                   | 1                                   | —         | 2         | 1         | —          |
| Real estate and goods rental and leasing                                | 2                                   | 1         | 55        | 47        | 20         |
| Services                                                                | 38                                  | 40        | 61        | 63        | 33         |
| Consumer                                                                | 9,535                               | 9,571     | 9,223     | 9,234     | 9,186      |
| Others                                                                  | 21                                  | 20        | —         | 7         | 4          |
| Total domestic                                                          | 9,658                               | 9,852     | 9,477     | 9,517     | 9,293      |
| Foreign:                                                                |                                     |           |           |           |            |
| Financial institutions                                                  | —                                   | 15        | 109       | —         | 25         |
| Commerce and industry                                                   | 17                                  | 5         | 335       | 14        | 3          |
| Others                                                                  | 557                                 | 425       | 427       | 366       | 334        |
| Total foreign                                                           | 574                                 | 445       | 871       | 380       | 362        |
| Total                                                                   | 10,232                              | 10,297    | 10,348    | 9,897     | 9,655      |
| Net charge-offs                                                         | 174,828                             | 180,211   | 183,301   | 239,999   | 293,026    |
| Others <sup>(1)</sup>                                                   | (140,575)                           | (3,507)   | (6,284)   | 3,334     | 7,019      |
| Allowance for loan losses at end of period                              | ¥ 491,676                           | ¥ 680,456 | ¥ 722,717 | ¥ 793,552 | ¥ 950,665  |
| Ratio of net charge-offs to average loans outstanding during the period | 0.18%                               | 0.20%     | 0.20%     | 0.28%     | 0.36%      |
| Allowance for loan losses applicable to foreign activities:             |                                     |           |           |           |            |
| Balance at beginning of period                                          | ¥ 128,347                           | ¥ 134,664 | ¥ 100,783 | ¥ 73,030  | ¥ 74,868   |
| Balance at end of period                                                | ¥ 114,306                           | ¥ 128,347 | ¥ 134,664 | ¥ 100,783 | ¥ 73,030   |
| Provision for loan losses                                               | ¥ 19,872                            | ¥ 29,699  | ¥ 60,002  | ¥ 32,712  | ¥ 10,462   |

(1) Others mainly include the exclusion of the allowance for loans and advances made by KUBC and The Minato Bank, both of which had been our subsidiaries but became our equity-method associates, and the exclusion of the allowance for loans and advances made by

SMFL which were reclassified as assets held for sale during the fiscal year ended March 31, 2018. The amount for the fiscal years ended March 31, 2017, 2016, 2015 and 2014 mainly includes foreign exchange translations.

The following table shows an allocation of the allowance for loan losses by the borrower's domicile and industry type at March 31, 2018, 2017, 2016, 2015 and 2014.

|                                                             | At March 31, |                                            |          |                                            |          |                                            |          |                                            |          |                                            |
|-------------------------------------------------------------|--------------|--------------------------------------------|----------|--------------------------------------------|----------|--------------------------------------------|----------|--------------------------------------------|----------|--------------------------------------------|
|                                                             | 2018         |                                            | 2017     |                                            | 2016     |                                            | 2015     |                                            | 2014     |                                            |
|                                                             | 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 .....                                         | ¥ 67,511     | 9.27%                                      | ¥101,936 | 9.96%                                      | ¥ 63,720 | 9.24%                                      | ¥ 82,938 | 9.16%                                      | ¥113,463 | 9.73%                                      |
| Agriculture, forestry, fisheries and mining .....           | 6,047        | 0.17%                                      | 2,251    | 0.18%                                      | 2,712    | 0.21%                                      | 2,673    | 0.20%                                      | 3,310    | 0.21%                                      |
| Construction .....                                          | 4,171        | 1.10%                                      | 14,142   | 1.20%                                      | 15,212   | 1.30%                                      | 22,532   | 1.31%                                      | 40,289   | 1.40%                                      |
| Transportation, communications and public enterprises ..... | 8,431        | 6.32%                                      | 16,237   | 5.58%                                      | 25,119   | 5.86%                                      | 30,555   | 5.88%                                      | 27,196   | 6.17%                                      |
| Wholesale and retail .....                                  | 45,321       | 6.16%                                      | 54,896   | 5.95%                                      | 73,230   | 6.18%                                      | 84,941   | 6.44%                                      | 116,862  | 6.68%                                      |
| Finance and insurance .....                                 | 3,183        | 3.24%                                      | 3,982    | 2.96%                                      | 6,886    | 2.99%                                      | 7,990    | 3.26%                                      | 11,209   | 3.08%                                      |
| Real estate and goods rental and leasing .....              | 14,650       | 10.50%                                     | 85,813   | 10.50%                                     | 94,669   | 10.68%                                     | 127,205  | 9.97%                                      | 194,706  | 9.85%                                      |
| Services .....                                              | 32,690       | 4.96%                                      | 52,282   | 5.08%                                      | 60,735   | 5.52%                                      | 77,829   | 5.43%                                      | 96,465   | 5.89%                                      |
| Municipalities .....                                        | —            | 1.17%                                      | —        | 1.26%                                      | 1        | 1.53%                                      | 1        | 1.54%                                      | 1        | 1.55%                                      |
| Lease financing .....                                       | —            | 0.02%                                      | 4,114    | 2.81%                                      | 11,567   | 2.46%                                      | 13,600   | 2.51%                                      | 14,487   | 2.59%                                      |
| Consumer .....                                              | 177,013      | 19.06%                                     | 194,964  | 19.85%                                     | 208,274  | 21.09%                                     | 208,661  | 21.39%                                     | 215,882  | 23.17%                                     |
| Others .....                                                | 18,353       | 5.38%                                      | 21,492   | 5.38%                                      | 25,928   | 3.32%                                      | 33,844   | 3.65%                                      | 43,765   | 3.87%                                      |
| Total domestic .....                                        | 377,370      | 67.35%                                     | 552,109  | 70.71%                                     | 588,053  | 70.38%                                     | 692,769  | 70.74%                                     | 877,635  | 74.19%                                     |
| <b>Foreign:</b>                                             |              |                                            |          |                                            |          |                                            |          |                                            |          |                                            |
| Public sector .....                                         | 75           | 0.43%                                      | 88       | 0.31%                                      | 105      | 0.26%                                      | 48       | 0.19%                                      | 303      | 0.20%                                      |
| Financial institutions .....                                | 2,386        | 5.24%                                      | 3,186    | 4.77%                                      | 3,347    | 4.53%                                      | 1,871    | 4.41%                                      | 3,325    | 4.19%                                      |
| Commerce and industry .....                                 | 92,255       | 24.49%                                     | 108,076  | 21.88%                                     | 117,671  | 22.78%                                     | 86,007   | 22.75%                                     | 60,646   | 19.95%                                     |
| Lease financing .....                                       | 1,828        | 0.42%                                      | 6,713    | 0.42%                                      | 3,998    | 0.40%                                      | 4,654    | 0.35%                                      | 3,285    | 0.32%                                      |
| Others .....                                                | 17,762       | 2.07%                                      | 10,284   | 1.91%                                      | 9,543    | 1.65%                                      | 8,203    | 1.56%                                      | 5,471    | 1.15%                                      |
| Total foreign .....                                         | 114,306      | 32.65%                                     | 128,347  | 29.29%                                     | 134,664  | 29.62%                                     | 100,783  | 29.26%                                     | 73,030   | 25.81%                                     |
| Total .....                                                 | ¥491,676     | 100.00%                                    | ¥680,456 | 100.00%                                    | ¥722,717 | 100.00%                                    | ¥793,552 | 100.00%                                    | ¥950,665 | 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, 2018, 2017 and 2016.

| For the fiscal year ended March 31             |              |                |              |                |              |       |
|------------------------------------------------|--------------|----------------|--------------|----------------|--------------|-------|
| 2018                                           |              | 2017           |              | 2016           |              |       |
| 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 . . . . . | ¥ 18,803,822 | —              | ¥ 16,791,818 | —              | ¥ 13,840,697 | —     |
| Interest-bearing demand deposits . . . . .     | 51,369,924   | 0.00%          | 46,984,288   | 0.00%          | 42,036,200   | 0.02% |
| Deposits at notice . . . . .                   | 998,707      | 0.00%          | 906,703      | 0.00%          | 779,789      | 0.02% |
| Time deposits . . . . .                        | 22,202,905   | 0.06%          | 22,678,544   | 0.07%          | 23,703,225   | 0.10% |
| Negotiable certificates of deposit . . . . .   | 5,919,870    | 0.01%          | 6,064,857    | 0.02%          | 7,027,345    | 0.08% |
| Others . . . . .                               | 6,647,336    | 0.45%          | 6,103,623    | 0.30%          | 4,911,611    | 0.23% |
| Total domestic offices . . . . .               | 105,942,564  |                | 99,529,833   |                | 92,298,867   |       |
| <b>Foreign offices:</b>                        |              |                |              |                |              |       |
| Non-interest-bearing demand deposits . . . . . | 1,193,648    | —              | 944,878      | —              | 874,577      | —     |
| Interest-bearing demand deposits . . . . .     | 2,645,695    | 0.84%          | 2,524,336    | 0.40%          | 1,859,753    | 0.33% |
| Deposits at notice . . . . .                   | 9,332,778    | 0.94%          | 8,212,986    | 0.52%          | 8,598,461    | 0.32% |
| Time deposits . . . . .                        | 6,930,572    | 1.98%          | 6,266,975    | 1.53%          | 5,277,263    | 1.40% |
| Negotiable certificates of deposit . . . . .   | 6,366,473    | 1.41%          | 6,249,295    | 1.02%          | 6,973,391    | 0.66% |
| Others . . . . .                               | 138,216      | 0.49%          | 129,410      | 0.48%          | 129,662      | 0.83% |
| Total foreign offices . . . . .                | 26,607,382   |                | 24,327,880   |                | 23,713,107   |       |
| Total . . . . .                                | ¥132,549,946 |                | ¥123,857,713 |                | ¥116,011,974 |       |

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, 2018, 2017 and 2016 were ¥2,303,112 million, ¥2,078,931 million and ¥1,915,610 million, respectively.

At March 31, 2018, the balances and remaining maturities of time deposits and negotiable certificates of deposit issued by domestic offices in amounts of ¥10 million (approximately \$94,118 at the median exchange rate for buying and selling spot dollars for yen by telegraphic transfer as determined by SMBC 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<br>(In millions) | Total       |
|-----------------------------------------------------------------|---------------|-----------------------------------------------------|-------------|
| <b>Domestic offices:</b>                                        |               |                                                     |             |
| Not later than three months . . . . .                           | ¥ 2,708,722   | ¥ 4,624,795                                         | ¥ 7,333,517 |
| Later than three months and not later than six months . . . . . | 1,220,955     | 584,741                                             | 1,805,696   |
| Later than six months and not later than one year . . . . .     | 3,871,407     | 120,775                                             | 3,992,182   |
| Later than one year . . . . .                                   | 1,815,043     | 77,710                                              | 1,892,753   |
| Total . . . . .                                                 | ¥ 9,616,127   | ¥ 5,408,021                                         | ¥15,024,148 |
| <b>Foreign offices:</b> . . . . .                               | ¥ 7,488,786   | ¥ 5,812,264                                         | ¥13,301,050 |

## 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, 2018, 2017 and 2016.

|                                                                | For the fiscal year ended March 31, |       |       |
|----------------------------------------------------------------|-------------------------------------|-------|-------|
|                                                                | 2018                                | 2017  | 2016  |
| Return on average total assets . . . . .                       | 0.4%                                | 0.3%  | 0.5%  |
| Return on average shareholders' equity . . . . .               | 6.6%                                | 6.0%  | 8.1%  |
| Dividends payout ratio <sup>(1)</sup> :                        |                                     |       |       |
| Basic . . . . .                                                | 28.8%                               | 32.7% | 25.1% |
| Diluted . . . . .                                              | 28.8%                               | 32.7% | 25.1% |
| Average shareholders' equity to average total assets . . . . . | 5.8%                                | 5.8%  | 5.8%  |

(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, 2018, 2017 and 2016.

|                                                                                                  | For the fiscal year ended March 31, |             |             |
|--------------------------------------------------------------------------------------------------|-------------------------------------|-------------|-------------|
|                                                                                                  | 2018                                | 2017        | 2016        |
| (In millions, except percentages)                                                                |                                     |             |             |
| <b>Call money, and payables under repurchase agreements and securities lending transactions:</b> |                                     |             |             |
| Average balance outstanding during the period . . . . .                                          | ¥15,868,395                         | ¥11,453,458 | ¥12,044,622 |
| Maximum balance outstanding at any month-end during the period . . . . .                         | 19,435,458                          | 15,172,714  | 16,507,993  |
| Balance at end of period . . . . .                                                               | 13,213,522                          | 11,512,526  | 8,059,930   |
| Weighted average interest rate during the period . . . . .                                       | 0.44%                               | 0.23%       | 0.17%       |
| Weighted average interest rate on balance at end of period . . . .                               | 0.74%                               | 0.34%       | 0.16%       |
| <b>Commercial paper:</b>                                                                         |                                     |             |             |
| Average balance outstanding during the period . . . . .                                          | 3,390,092                           | 3,456,337   | 4,555,927   |
| Maximum balance outstanding at any month-end during the period . . . . .                         | 3,671,388                           | 4,095,896   | 5,301,064   |
| Balance at end of period . . . . .                                                               | 2,467,645                           | 3,518,346   | 4,169,515   |
| Weighted average interest rate during the period . . . . .                                       | 0.56%                               | 0.44%       | 0.28%       |
| Weighted average interest rate on balance at end of period . . . .                               | 1.30%                               | 0.54%       | 0.38%       |
| <b>Short-term borrowings:</b>                                                                    |                                     |             |             |
| Average balance outstanding during the period . . . . .                                          | 6,442,910                           | 4,091,095   | 4,757,270   |
| Maximum balance outstanding at any month-end during the period . . . . .                         | 7,522,143                           | 7,546,496   | 5,501,614   |
| Balance at end of period . . . . .                                                               | 3,943,140                           | 7,546,496   | 3,073,509   |
| Weighted average interest rate during the period . . . . .                                       | 0.10%                               | 0.16%       | 0.17%       |
| Weighted average interest rate on balance at end of period . . . .                               | 0.20%                               | 0.09%       | 0.20%       |

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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## **Report of Independent Registered Public Accounting Firm**

To the Shareholders and Board of Directors  
Sumitomo Mitsui Financial Group, Inc.:

### *Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated statements of financial position of Sumitomo Mitsui Financial Group, Inc. and subsidiaries (the “Group”) as of March 31, 2018 and 2017, 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, 2018 and the related notes (collectively, the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of March 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended March 31, 2018, 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) (PCAOB), the Group’s internal control over financial reporting as of March 31, 2018, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated June 22, 2018 expressed an unqualified opinion on the effectiveness of the Group’s internal control over financial reporting.

### *Basis for Opinion*

These consolidated financial statements are the responsibility of the Group’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG AZSA LLC

We have served as the Group’s auditor since 1976.

Tokyo, Japan  
June 22, 2018

## **Report of Independent Registered Public Accounting Firm**

To the Shareholders and Board of Directors  
Sumitomo Mitsui Financial Group, Inc.:

### *Opinion on Internal Control Over Financial Reporting*

We have audited Sumitomo Mitsui Financial Group, Inc. and subsidiaries' (the "Group") internal control over financial reporting as of March 31, 2018, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of March 31, 2018, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial position of the Group as of March 31, 2018 and 2017, 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, 2018, and the related notes (collectively, the "consolidated financial statements"), and our report dated June 22, 2018 expressed an unqualified opinion on those consolidated financial statements.

### *Basis for Opinion*

The Group'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. Our responsibility is to express an opinion on the Group's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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 of internal control over financial reporting 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.

### *Definition and Limitations of Internal Control Over Financial Reporting*

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.

/s/ KPMG AZSA LLC

Tokyo, Japan  
June 22, 2018

## CONSOLIDATED FINANCIAL STATEMENTS

### Consolidated Statement of Financial Position

|                                                                                         |      | At March 31,        |                     |
|-----------------------------------------------------------------------------------------|------|---------------------|---------------------|
|                                                                                         | Note | 2018                | 2017                |
|                                                                                         |      | (In millions)       |                     |
| <b>Assets:</b>                                                                          |      |                     |                     |
| Cash and deposits with banks . . . . .                                                  | 5    | ¥ 54,696,069        | ¥ 47,330,155        |
| Call loans and bills bought . . . . .                                                   |      | 1,881,880           | 1,872,209           |
| Reverse repurchase agreements and cash collateral on securities<br>borrowed . . . . .   |      | 8,491,703           | 8,924,385           |
| Trading assets . . . . .                                                                | 6    | 3,169,123           | 3,776,671           |
| Derivative financial instruments . . . . .                                              | 7    | 3,885,271           | 4,063,982           |
| Financial assets at fair value through profit or loss . . . . .                         | 8    | 1,547,672           | 1,599,093           |
| Investment securities . . . . .                                                         | 9    | 20,495,075          | 19,073,937          |
| Loans and advances . . . . .                                                            | 10   | 85,129,070          | 95,273,845          |
| Investments in associates and joint ventures . . . . .                                  | 11   | 730,414             | 675,704             |
| Property, plant and equipment . . . . .                                                 | 12   | 1,510,132           | 2,686,055           |
| Intangible assets . . . . .                                                             | 14   | 835,902             | 1,096,568           |
| Other assets . . . . .                                                                  | 15   | 4,043,908           | 4,321,724           |
| Current tax assets . . . . .                                                            |      | 87,961              | 240,385             |
| Deferred tax assets . . . . .                                                           | 22   | 19,436              | 81,961              |
| Assets held for sale . . . . .                                                          | 50   | 5,651,950           | 134,307             |
| <b>Total assets</b> . . . . .                                                           |      | <u>¥192,175,566</u> | <u>¥191,150,981</u> |
| <b>Liabilities:</b>                                                                     |      |                     |                     |
| Deposits . . . . .                                                                      | 16   | ¥128,461,527        | ¥130,295,290        |
| Call money and bills sold . . . . .                                                     |      | 1,190,929           | 2,088,020           |
| Repurchase agreements and cash collateral on securities lent . . . . .                  |      | 12,022,593          | 9,424,506           |
| Trading liabilities . . . . .                                                           | 17   | 2,143,899           | 2,071,584           |
| Derivative financial instruments . . . . .                                              | 7    | 3,498,016           | 3,889,694           |
| Borrowings . . . . .                                                                    | 18   | 10,652,481          | 12,245,943          |
| Debt securities in issue . . . . .                                                      | 19   | 10,569,117          | 11,165,623          |
| Provisions . . . . .                                                                    | 20   | 188,267             | 194,700             |
| Other liabilities . . . . .                                                             | 21   | 6,882,740           | 7,461,101           |
| Current tax liabilities . . . . .                                                       |      | 55,516              | 79,371              |
| Deferred tax liabilities . . . . .                                                      | 22   | 397,741             | 320,201             |
| Liabilities directly associated with the assets held for sale . . . . .                 | 50   | 3,616,941           | 27,665              |
| <b>Total liabilities</b> . . . . .                                                      |      | <u>179,679,767</u>  | <u>179,263,698</u>  |
| <b>Equity:</b>                                                                          |      |                     |                     |
| Capital stock . . . . .                                                                 | 24   | 2,338,743           | 2,337,896           |
| Capital surplus . . . . .                                                               | 24   | 863,505             | 864,052             |
| Retained earnings . . . . .                                                             | 24   | 5,149,193           | 4,609,496           |
| Other reserves . . . . .                                                                | 24   | 2,324,349           | 2,134,042           |
| Treasury stock . . . . .                                                                | 24   | (12,493)            | (12,913)            |
| Equity attributable to shareholders of Sumitomo Mitsui<br>Financial Group, Inc. . . . . |      | 10,663,297          | 9,932,573           |
| Non-controlling interests . . . . .                                                     | 25   | 1,232,980           | 1,505,001           |
| Equity attributable to other equity instruments holders . . . . .                       | 25   | 599,522             | 449,709             |
| <b>Total equity</b> . . . . .                                                           |      | <u>12,495,799</u>   | <u>11,887,283</u>   |
| <b>Total equity and liabilities</b> . . . . .                                           |      | <u>¥192,175,566</u> | <u>¥191,150,981</u> |

The accompanying notes are an integral part of the Consolidated Financial Statements.

## Consolidated Income Statement

|                                                                                           | Note | For the fiscal year ended March 31,  |                  |                  |
|-------------------------------------------------------------------------------------------|------|--------------------------------------|------------------|------------------|
|                                                                                           |      | 2018                                 | 2017             | 2016             |
|                                                                                           |      | (In millions, except per share data) |                  |                  |
| Interest income . . . . .                                                                 |      | ¥2,144,070                           | ¥1,900,261       | ¥1,872,584       |
| Interest expense . . . . .                                                                |      | 733,969                              | 502,338          | 431,101          |
| Net interest income . . . . .                                                             | 26   | 1,410,101                            | 1,397,923        | 1,441,483        |
| Fee and commission income . . . . .                                                       |      | 1,131,364                            | 1,066,412        | 1,031,680        |
| Fee and commission expense . . . . .                                                      |      | 178,867                              | 181,573          | 131,381          |
| Net fee and commission income . . . . .                                                   | 27   | 952,497                              | 884,839          | 900,299          |
| Net trading income . . . . .                                                              | 28   | 270,464                              | 183,963          | 462,682          |
| Net income (loss) from financial assets at fair value through<br>profit or loss . . . . . | 29   | (667)                                | 2,018            | 12,260           |
| Net investment income . . . . .                                                           | 30   | 424,097                              | 305,327          | 375,229          |
| Other income . . . . .                                                                    | 31   | 755,855                              | 573,825          | 496,273          |
| <b>Total operating income . . . . .</b>                                                   |      | <b>3,812,347</b>                     | <b>3,347,895</b> | <b>3,688,226</b> |
| Impairment charges on financial assets . . . . .                                          | 32   | 136,808                              | 212,967          | 148,356          |
| <b>Net operating income . . . . .</b>                                                     |      | <b>3,675,539</b>                     | <b>3,134,928</b> | <b>3,539,870</b> |
| General and administrative expenses . . . . .                                             | 33   | 1,813,121                            | 1,752,135        | 1,706,263        |
| Other expenses . . . . .                                                                  | 34   | 792,765                              | 531,759          | 538,963          |
| <b>Operating expenses . . . . .</b>                                                       |      | <b>2,605,886</b>                     | <b>2,283,894</b> | <b>2,245,226</b> |
| Share of post-tax profit of associates and joint ventures . . . . .                       |      | 49,323                               | 29,318           | 31,056           |
| <b>Profit before tax . . . . .</b>                                                        |      | <b>1,118,976</b>                     | <b>880,352</b>   | <b>1,325,700</b> |
| Income tax expense . . . . .                                                              | 35   | 229,378                              | 139,766          | 372,878          |
| <b>Net profit . . . . .</b>                                                               |      | <b>¥ 889,598</b>                     | <b>¥ 740,586</b> | <b>¥ 952,822</b> |
| Profit attributable to:                                                                   |      |                                      |                  |                  |
| Shareholders of Sumitomo Mitsui Financial Group, Inc. . . . .                             |      | ¥ 759,998                            | ¥ 627,870        | ¥ 843,920        |
| Non-controlling interests . . . . .                                                       |      | 119,878                              | 104,787          | 106,129          |
| Other equity instruments holders . . . . .                                                |      | 9,722                                | 7,929            | 2,773            |
| Earnings per share:                                                                       |      |                                      |                  |                  |
| Basic . . . . .                                                                           | 36   | ¥ 538.84                             | ¥ 458.56         | ¥ 617.25         |
| Diluted . . . . .                                                                         | 36   | 538.43                               | 458.18           | 616.83           |

The accompanying notes are an integral part of the Consolidated Financial Statements.

## Consolidated Statement of Comprehensive Income

|                                                                                          | For the fiscal year ended March 31, |                  |                  |
|------------------------------------------------------------------------------------------|-------------------------------------|------------------|------------------|
|                                                                                          | 2018                                | 2017             | 2016             |
|                                                                                          | (In millions)                       |                  |                  |
| <b>Net profit</b> .....                                                                  | ¥ 889,598                           | ¥ 740,586        | ¥ 952,822        |
| <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 .....                               | 73,662                              | 8,134            | (154,273)        |
| Share of other comprehensive income (loss) of associates and joint ventures .....        | 58                                  | (462)            | 558              |
| Income tax relating to items that will not be reclassified .....                         | (22,492)                            | (2,315)          | 48,550           |
| Total items that will not be reclassified to profit or loss, net of tax ...              | 51,228                              | 5,357            | (105,165)        |
| <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 .....                               | 582,435                             | 371,438          | (551,572)        |
| Reclassification adjustments for (gains) losses included in net profit, before tax ..... | (275,038)                           | (109,990)        | (217,529)        |
| Exchange differences on translating foreign operations:                                  |                                     |                  |                  |
| Gains (losses) arising during the period, before tax .....                               | (75,409)                            | (24,063)         | (219,904)        |
| Reclassification adjustments for (gains) losses included in net profit, before tax ..... | 49                                  | (4)              | 8                |
| Share of other comprehensive income (loss) of associates and joint ventures .....        | 7,827                               | (21,140)         | (14,362)         |
| Income tax relating to items that may be reclassified .....                              | (96,246)                            | (80,074)         | 308,623          |
| Total items that may be reclassified subsequently to profit or loss, net of tax .....    | 143,618                             | 136,167          | (694,736)        |
| <b>Other comprehensive income (loss), net of tax</b> .....                               | 194,846                             | 141,524          | (799,901)        |
| <b>Total comprehensive income</b> .....                                                  | <u>¥1,084,444</u>                   | <u>¥ 882,110</u> | <u>¥ 152,921</u> |
| Total comprehensive income attributable to:                                              |                                     |                  |                  |
| Shareholders of Sumitomo Mitsui Financial Group, Inc. ....                               | ¥ 948,250                           | ¥ 769,957        | ¥ 76,791         |
| Non-controlling interests .....                                                          | 126,472                             | 104,224          | 73,357           |
| Other equity instruments holders .....                                                   | 9,722                               | 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 instruments holders | Total equity |
|-------------------------------------------------------------|---------------|-----------------|-------------------|-----------------------------------------|-------------------------------------|--------------------------------------------------------|----------------|--------------------------------------------|---------------------------|---------------------------------------------------------|--------------|
|                                                             | (In millions) |                 |                   |                                         |                                     |                                                        |                |                                            |                           |                                                         |              |
| <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   |
| <b>Comprehensive income:</b>                                |               |                 |                   |                                         |                                     |                                                        |                |                                            |                           |                                                         |              |
| Net profit                                                  | —             | —               | 759,998           | —                                       | —                                   | —                                                      | —              | 759,998                                    | 119,878                   | 9,722                                                   | 889,598      |
| Other comprehensive income                                  | —             | —               | —                 | 51,273                                  | 192,366                             | (55,387)                                               | —              | 188,252                                    | 6,594                     | —                                                       | 194,846      |
| <b>Total comprehensive income</b>                           | —             | —               | 759,998           | 51,273                                  | 192,366                             | (55,387)                                               | —              | 948,250                                    | 126,472                   | 9,722                                                   | 1,084,444    |
| Issuance of shares under share-based payment transactions   | 847           | 848             | —                 | —                                       | —                                   | —                                                      | —              | 1,695                                      | —                         | —                                                       | 1,695        |
| Issuance of other equity instruments                        | —             | —               | —                 | —                                       | —                                   | —                                                      | —              | —                                          | —                         | 149,916                                                 | 149,916      |
| Acquisition and disposal of subsidiaries and businesses-net | —             | —               | (1,190)           | 1,190                                   | —                                   | —                                                      | —              | —                                          | (204,257)                 | —                                                       | (204,257)    |
| Transaction with non-controlling interest shareholders      | —             | —               | 62                | —                                       | —                                   | —                                                      | —              | 62                                         | 2,440                     | —                                                       | 2,502        |
| Dividends to shareholders                                   | —             | —               | (218,596)         | —                                       | —                                   | —                                                      | —              | (218,596)                                  | (61,676)                  | —                                                       | (280,272)    |
| Coupons on other equity instruments                         | —             | —               | —                 | —                                       | —                                   | —                                                      | —              | —                                          | —                         | (9,722)                                                 | (9,722)      |
| Redemption of preferred securities                          | —             | —               | —                 | —                                       | —                                   | —                                                      | —              | —                                          | (135,000)                 | —                                                       | (135,000)    |
| Purchase of treasury stock                                  | —             | —               | —                 | —                                       | —                                   | —                                                      | (142)          | (142)                                      | —                         | —                                                       | (142)        |
| Sale of treasury stock                                      | —             | —               | —                 | —                                       | —                                   | —                                                      | 562            | 562                                        | —                         | —                                                       | 562          |
| Loss on sale of treasury stock                              | —             | (41)            | —                 | —                                       | —                                   | —                                                      | —              | (41)                                       | —                         | —                                                       | (41)         |
| Share-based payment transactions                            | —             | (1,354)         | —                 | —                                       | —                                   | —                                                      | —              | (1,354)                                    | —                         | —                                                       | (1,354)      |
| Others                                                      | —             | —               | (577)             | 865                                     | —                                   | —                                                      | —              | 288                                        | —                         | (103)                                                   | 185          |
| <b>Balance at March 31, 2018</b>                            | ¥2,338,743    | ¥863,505        | ¥5,149,193        | ¥ 76,102                                | ¥2,122,260                          | ¥ 125,987                                              | ¥ (12,493)     | ¥10,663,297                                | ¥1,232,980                | ¥ 599,522                                               | ¥12,495,799  |

The accompanying notes are an integral part of the Consolidated Financial Statements.

## Consolidated Statement of Cash Flows

|                                                                                                                           | For the fiscal year ended March 31, |                     |                     |
|---------------------------------------------------------------------------------------------------------------------------|-------------------------------------|---------------------|---------------------|
|                                                                                                                           | 2018                                | 2017                | 2016                |
|                                                                                                                           | (In millions)                       |                     |                     |
| <b>Operating Activities:</b>                                                                                              |                                     |                     |                     |
| Profit before tax                                                                                                         | ¥ 1,118,976                         | ¥ 880,352           | ¥ 1,325,700         |
| Adjustments for:                                                                                                          |                                     |                     |                     |
| Gains on financial assets at fair value through profit or loss and investment securities                                  | (274,371)                           | (112,008)           | (235,415)           |
| Foreign exchange losses                                                                                                   | 16,612                              | 241,570             | 556,073             |
| Provision for loan losses                                                                                                 | 126,623                             | 141,457             | 118,750             |
| Depreciation and amortization                                                                                             | 310,179                             | 301,638             | 255,971             |
| Share of post-tax profit of associates and joint ventures                                                                 | (49,323)                            | (29,318)            | (31,056)            |
| Net changes in assets and liabilities:                                                                                    |                                     |                     |                     |
| Net increase of term deposits with original maturities over three months                                                  | (210,821)                           | (57,503)            | (11,071)            |
| Net (increase) decrease of call loans and bills bought                                                                    | 4,436                               | (640,331)           | (18,233)            |
| Net (increase) decrease of reverse repurchase agreements and cash collateral on securities borrowed                       | 372,563                             | (698,940)           | (1,040,858)         |
| Net (increase) decrease of loans and advances                                                                             | 354,622                             | (6,267,726)         | (2,258,824)         |
| Net change of trading assets and liabilities and derivative financial instruments                                         | 283,731                             | (250,579)           | (837,291)           |
| Net increase of deposits                                                                                                  | 5,881,032                           | 4,505,200           | 8,230,157           |
| Net increase (decrease) of call money and bills sold                                                                      | (778,412)                           | 911,525             | (4,615,144)         |
| Net increase (decrease) of repurchase agreements and cash collateral on securities lent                                   | 2,735,586                           | 2,610,655           | (1,974,347)         |
| Net increase (decrease) of other unsubordinated borrowings and debt securities in issue                                   | 991,110                             | 2,437,331           | (1,499,201)         |
| Income taxes paid—net                                                                                                     | (105,880)                           | (337,299)           | (297,767)           |
| Other operating activities—net                                                                                            | 395,318                             | 104,575             | 420,231             |
| <b>Net cash and cash equivalents provided by (used in) operating activities</b>                                           | <b>11,171,981</b>                   | <b>3,740,599</b>    | <b>(1,912,325)</b>  |
| <b>Investing Activities:</b>                                                                                              |                                     |                     |                     |
| Purchases of financial assets at fair value through profit or loss and available-for-sale financial assets                | (22,488,127)                        | (19,640,194)        | (25,968,442)        |
| Proceeds from sale of financial assets at fair value through profit or loss and available-for-sale financial assets       | 13,384,847                          | 13,460,988          | 22,597,455          |
| Proceeds from maturities of financial assets at fair value through profit or loss and available-for-sale financial assets | 6,265,527                           | 6,604,279           | 6,072,497           |
| Purchases of held-to-maturity investments                                                                                 | (2,001)                             | —                   | (266,243)           |
| Proceeds from maturities of held-to-maturity investments                                                                  | 792,358                             | 1,093,887           | 1,394,921           |
| Acquisitions of subsidiaries and businesses, net of cash and cash equivalents acquired                                    | (160,862)                           | (199,356)           | 2,249,594           |
| Investments in associates and joint ventures                                                                              | (7,744)                             | (16,494)            | (62,334)            |
| Disposal of subsidiaries and businesses, net of cash and cash equivalents disposed                                        | (852,179)                           | —                   | —                   |
| Proceeds from sale of investments in associates and joint ventures                                                        | 19,415                              | 14,696              | 762                 |
| Purchases of property, plant and equipment, and investment properties                                                     | (710,838)                           | (491,444)           | (529,151)           |
| Purchases of intangible assets                                                                                            | (136,100)                           | (145,001)           | (158,888)           |
| Proceeds from sale of property, plant and equipment, investment properties and intangible assets                          | 302,027                             | 169,027             | 148,650             |
| Other investing activities—net                                                                                            | —                                   | 1,192               | 6,697               |
| <b>Net cash and cash equivalents provided by (used in) investing activities</b>                                           | <b>(3,593,677)</b>                  | <b>851,580</b>      | <b>5,485,518</b>    |
| <b>Financing Activities:</b>                                                                                              |                                     |                     |                     |
| Proceeds from issuance of subordinated borrowings                                                                         | —                                   | —                   | 18,000              |
| Redemption of subordinated borrowings                                                                                     | (10,000)                            | (11,000)            | (40,262)            |
| Proceeds from issuance of subordinated bonds                                                                              | 104,866                             | 244,315             | 276,949             |
| Redemption of subordinated bonds                                                                                          | (180,034)                           | (371,640)           | (186,785)           |
| Redemption of preferred securities                                                                                        | (135,000)                           | (86,887)            | (142,000)           |
| Proceeds from issuance of other equity instruments                                                                        | 149,916                             | 149,887             | 299,895             |
| Dividends paid to shareholders of Sumitomo Mitsui Financial Group, Inc.                                                   | (218,569)                           | (205,078)           | (211,952)           |
| Dividends paid to non-controlling interest shareholders                                                                   | (62,529)                            | (65,860)            | (76,744)            |
| Coupons paid to other equity instruments holders                                                                          | (9,722)                             | (7,929)             | (2,773)             |
| Purchase of treasury stock and proceeds from sale of treasury stock—net                                                   | 379                                 | 179,657             | (137)               |
| Purchase of other equity instruments and proceeds from sale of other equity instruments—net                               | (103)                               | (102)               | —                   |
| Transactions with non-controlling interest shareholders—net                                                               | (6)                                 | 386                 | 156                 |
| <b>Net cash and cash equivalents used in financing activities</b>                                                         | <b>(360,802)</b>                    | <b>(174,251)</b>    | <b>(65,653)</b>     |
| Effect of exchange rate changes on cash and cash equivalents                                                              | (45,865)                            | (300,075)           | (489,331)           |
| <b>Net increase of cash and cash equivalents</b>                                                                          | <b>7,171,637</b>                    | <b>4,117,853</b>    | <b>3,018,209</b>    |
| <b>Cash and cash equivalents at beginning of period</b>                                                                   | <b>46,244,819</b>                   | <b>42,126,966</b>   | <b>39,108,757</b>   |
| <b>Cash and cash equivalents at end of period</b>                                                                         | <b>¥ 53,416,456</b>                 | <b>¥ 46,244,819</b> | <b>¥ 42,126,966</b> |
| <b>Net cash and cash equivalents provided by (used in) operating activities includes:</b>                                 |                                     |                     |                     |
| Interest and dividends received                                                                                           | ¥ 2,249,000                         | ¥ 2,025,371         | ¥ 1,996,686         |
| Interest paid                                                                                                             | 711,432                             | 484,362             | 421,765             |

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” or the “Company”) 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 the Company’s newly issued securities. The Company is a joint stock corporation with limited liability (*Kabushiki Kaisha*) incorporated under the Companies Act of Japan (“Companies Act”). Upon the formation of the Company and the completion of the statutory share transfer, SMBC became a direct, wholly owned subsidiary of the Company. The Company has a primary listing on the Tokyo Stock Exchange (First Section), with further listing on the Nagoya Stock Exchange (First Section). The Company’s American Depositary Shares are listed on the New York Stock Exchange.

The Company and its subsidiaries (the “SMBC 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 22, 2018.

### 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 SMBC 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 the Company’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 SMBC Group**

During the fiscal year ended March 31, 2018, a number of amendments to standards have become effective; however, they have not resulted in any material changes to the SMBC Group’s accounting policies.

### **Consolidation**

#### ***Subsidiaries***

Subsidiaries are all entities controlled by the SMBC Group. The SMBC 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 SMBC Group considers all facts and circumstances whether it controls an entity.

Where the relevant activities are directed through voting or similar rights, the SMBC 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 SMBC 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 SMBC 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 SMBC 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 SMBC 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 SMBC 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 SMBC Group obtains control. They are deconsolidated from the date on which the SMBC Group loses control.

The acquisition method is used to account for the business combinations including the acquisition of subsidiaries by the SMBC 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 SMBC 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 SMBC 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 SMBC 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 SMBC 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 SMBC 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 SMBC Group.

#### ***Non-controlling interests***

Changes in the SMBC 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 SMBC 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 SMBC 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 SMBC 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 SMBC Group, may be determined to be a joint venture.

The SMBC 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 SMBC Group discontinues the use of the equity method from the date on which the SMBC Group ceases to have significant influence or joint control over the investees.

Under the equity method, the SMBC 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 SMBC 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 SMBC 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 SMBC Group. Profits on transactions between the SMBC Group and its associates and joint ventures are eliminated to the extent of the SMBC Group's interest in the associates or joint ventures. Losses are also eliminated to the extent of the SMBC 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 SMBC Group's share of losses in an associate or joint venture exceeds the SMBC Group's carrying amount of the investment, the SMBC Group does not recognize further losses, unless it has a binding obligation or has made payments on behalf of the entity.

### **Segment Reporting**

The SMBC 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 SMBC 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 the Company'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 certain of these 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 SMBC 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 SMBC 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 SMBC 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 SMBC Group has transferred substantially all the risks and rewards of ownership at a consolidated level. The SMBC 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 classified as held for trading unless they are designated as hedging instruments, and included in “Derivative financial instruments” in the consolidated statement of financial position. 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 held for trading 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 SMBC Group classifies the entire hybrid instrument at fair value through profit or loss when the SMBC 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 (loss) 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 SMBC Group intends to sell immediately or in the near term, which are classified as held for trading, and those that the SMBC Group upon initial recognition designates as at fair value through profit or loss;
- those that the SMBC Group upon initial recognition classifies as available-for-sale; or
- those for which the SMBC 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 SMBC 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 SMBC Group has the positive intention and ability to hold to maturity. If the SMBC 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**

On April 1, 2017, the SMBC Group started to apply hedge accounting in order to reflect the effect of risk management activities on its consolidated financial statements to mitigate the foreign currency risk on exchange differences arising from the translation of net investments in foreign operations. The SMBC Group uses currency derivatives and foreign currency denominated financial liabilities as hedging instruments. The effective portion of the gain or loss on the hedging instruments is recognized in other comprehensive income, whereas the ineffective portion of the gain or loss on the hedging instruments is recognized in net trading income in the consolidated income statement. The cumulative gain or loss recognized in other comprehensive income is recognized in the profit or loss on the disposal or partial disposal of the foreign operation. For further information about hedge accounting, see Note 7 "Derivative Financial Instruments—Hedge accounting."

### **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 SMBC 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 SMBC 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 SMBC 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 SMBC 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 SMBC Group did not have any significant deferred day one profit and loss for the fiscal years ended March 31, 2018 and 2017.

### **Repurchase and Reverse Repurchase Agreements, and Securities Borrowing and Lending Agreements**

In the ordinary course of business, the SMBC 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 SMBC 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 SMBC Group borrows or purchases securities under agreements to resell them at a predetermined price on a future date (“reverse repos”). Since the SMBC 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, 2018 and 2017, 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 SMBC 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 SMBC 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 SMBC Group due to the borrower's financial difficulties on terms that the SMBC 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 SMBC 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 SMBC 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 SMBC 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 SMBC 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 SMBC 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 SMBC 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 SMBC 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 SMBC 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 SMBC 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 SMBC 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 SMBC 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 SMBC 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.

### **Assets Held for Sale**

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if their carrying amount will be recovered principally through sale rather than through continuing use. In order to be classified as held for sale, the assets or disposal groups must be available for immediate sale in their present condition and their sale must be highly probable. Such assets or disposal groups are generally measured at the lower of their carrying amount and fair value less costs to sell.

### **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 SMBC 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 SMBC 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 SMBC 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 SMBC 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 SMBC 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 SMBC 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 SMBC Group operates various retirement benefit plans and other employee benefit plans.

#### ***Retirement benefits***

The SMBC 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 SMBC 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 SMBC 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 SMBC 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 SMBC 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 SMBC 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 SMBC 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 SMBC Group are classified in accordance with the substance of the contractual agreement as financial liabilities where the contractual arrangement results in the SMBC 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 the Company or any other member of the SMBC Group companies purchase the Company'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 the Company'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 SMBC 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 SMBC 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 (Loss) from Financial Assets at Fair Value through Profit or Loss**

Net income (loss) 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 SMBC 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 SMBC 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 SMBC 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 SMBC Group is currently evaluating the potential impact that the adoption of the amendments will have on its consolidated financial statements.

### ***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 SMBC Group expects the primary impacts of the standard to be the capitalization of the incremental costs of obtaining a contract and costs incurred in fulfilling a contract in the credit card business, and the classification of certain incentives related to point programmes as performance obligations. The SMBC Group initially applies the standard on April 1, 2018. The SMBC Group will apply the standard retrospectively by adjusting the consolidated statement of financial position at the date of initial application, without any requirements to restate previous periods. The SMBC Group’s opening shareholders’ equity is expected to increase by approximately ¥15 billion post-tax, due to the capitalization of contract costs.

### ***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.

#### ***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 SMBC Group has conducted assessments of business model and SPPI requirements to identify classification and measurement of financial assets under the standard. At initial application, the SMBC Group 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.

### *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.

Quantitative and qualitative assessments are used to determine whether there has been a significant increase in credit risk on financial instruments. These assessments include comparing the risk of a default occurring on the financial instrument at the reporting date and that at the date of initial recognition. Financial instruments with risk of a default increasing more than the quantitative threshold defined by the SMBC Group are deemed to have experienced a significant increase in credit risk. In addition, financial instruments assessed to have high credit risk from the credit risk management practices of the SMBC Group are transferred to Stage 2. Furthermore, a

significant increase in credit risk is presumed if principal and/or interest payments are more than 30 days past due.

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 SMBC Group has built 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, for instance by adjusting certain conservative factors in those PDs and LGDs. For financial assets at Stage 2, the SMBC Group will use the lifetime PDs developed to measure lifetime ECL and consider forward-looking macro-economic information. On the other hand, the discounted cash flow method will be continued to be applied for the measurement of the ECL for individually significant impaired financial assets. The allowance for financial assets in IFRS 9 will increase compared to that in IAS 39, as a result of an increase in the overall level of allowance for non-impaired financial assets. This is primarily due to the requirements under IFRS 9 to measure an allowance equal to 12 months ECL for those financial assets at Stage 1 and lifetime ECL for those at Stage 2, whereas the allowance for those financial assets is calculated for incurred losses with a relatively short loss identification period not longer than 12 months under 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 standard aligns hedge accounting more closely with risk management and adopts a more principle-based approach than that under IAS 39. The standard includes an accounting policy choice to defer the adoption of hedge accounting under the standard and to continue with IAS 39.

#### *Transition impact*

The SMBC Group initially applies the standard on April 1, 2018. The SMBC 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. As for hedge accounting, the SMBC Group started to apply hedge accounting to a part of the hedge transactions whose hedged items were net investments in foreign operations under IAS 39, and has decided to apply the accounting policy to continue with IAS 39 hedge accounting for those hedge transactions. As the amended IFRS 7 “Financial Instruments: Disclosures” will be effective at the time of application of the standard, the SMBC Group will revise the related disclosures for hedge accounting from then.

The SMBC Group’s opening shareholders’ equity is expected to decrease by approximately ¥150 billion post-tax, primarily due to the new requirements for impairment. This estimate is based on accounting policies, assumptions, judgments and estimation techniques that remain subject to change until the SMBC Group finalizes its financial statements for the fiscal year ending March 31, 2019. The adoption of IFRS 9 has no impact on the SMBC Group’s Common Equity Tier 1 capital, as it is calculated under Japanese GAAP.

#### ***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 and are not expected to have a material impact on the SMBC Group’s 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 and is not expected to have a material impact on the SMBC Group's 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, 2018 and are not expected to have a material impact on the SMBC 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 and is not expected to have a material impact on the SMBC Group's 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 and are not expected to have a material impact on the SMBC Group's 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 SMBC 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 "Income Taxes" 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 SMBC Group is currently evaluating the potential impact that the adoption of the interpretation will have on its consolidated financial statements.

#### ***Prepayment Features with Negative Compensation (Amendments to IFRS 9)***

In October 2017, the IASB issued amendments to IFRS 9 to allow entities to measure particular prepayable financial assets with negative compensation at amortized cost or at fair value through other comprehensive

income instead of at fair value through profit or loss, if a specified condition is met. The amendments are effective for annual periods beginning on or after January 1, 2019. The SMBC Group is currently evaluating the potential impact that the adoption of the amendments will have on its consolidated financial statements.

#### ***Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)***

In October 2017, the IASB issued amendments to IAS 28 to clarify that entities account for long-term interests in an associate or joint venture, to which the equity method is not applied, using IFRS 9. The amendments are effective for annual periods beginning on or after January 1, 2019. The SMBC Group is currently evaluating the potential impact that the adoption of the amendments will have on its consolidated financial statements.

#### ***Annual Improvements to IFRSs 2015-2017 Cycle***

In December 2017, the IASB issued Annual Improvements to IFRSs 2015-2017 Cycle, which is a collection of amendments to four IFRSs. These are amendments that either clarify the wording in the standard or correct relatively minor oversights or conflicts between existing requirements of the standards. These improvements include the amendments effective for annual periods beginning on or after January 1, 2019. The SMBC Group is currently evaluating the potential impact that the adoption of the amendments will have on its consolidated financial statements.

#### ***Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)***

In February 2018, the IASB issued amendments to IAS 19 “Employee Benefits” to clarify how to determine current service cost and net interest for the period after a change to a defined benefit plan. When a change to a plan such as an amendment, curtailment or settlement takes place, IAS 19 requires an entity to remeasure its net defined benefit liability or asset. The amendments require an entity to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. The amendments are effective for annual periods beginning on or after January 1, 2019. The SMBC Group is currently evaluating the potential impact that the adoption of the amendments 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 SMBC 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 ¥126,623 million, ¥141,457 million and ¥118,750 million were recognized for the fiscal years ended March 31, 2018, 2017 and 2016, 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 SMBC 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 SMBC 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 SMBC 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 SMBC 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 ¥10,185 million, ¥71,510 million and ¥29,606 million for the fiscal years ended March 31, 2018, 2017 and 2016, 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 SMBC 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, 2018, 2017 and 2016, impairment losses on goodwill were ¥28,607 million, ¥74,616 million and ¥1,124 million, 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 ¥145,179 million and ¥157,333 million at March 31, 2018 and 2017, respectively. For additional information, refer to Note 20 "Provisions."

## **Retirement Benefits**

The SMBC 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 SMBC 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 SMBC 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 ¥279,567 million and ¥192,772 million at March 31, 2018 and 2017, 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 SMBC 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 ¥19,436 million and ¥81,961 million in the consolidated statement of financial position at March 31, 2018 and 2017, respectively, while the net total of deferred tax assets and liabilities amounted to net liabilities of ¥378,305 million and ¥238,240 million at March 31, 2018 and 2017, respectively. For additional information, refer to Note 22 “Deferred Income Tax.”

## **4 SEGMENT ANALYSIS**

### **Business Segments**

The SMBC 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 SMBC Group has four main business segments: the Wholesale Business Unit, the Retail Business Unit, the International Business Unit and the Global Markets Business Unit, with the remaining operations recorded in Head office account and others. The SMBC Group changed its business segment information for the fiscal year ended March 31, 2018 in connection with the introduction of Group-wide business units, which determine strategies for each customer segment across the SMBC Group companies. The business segment was previously reported as Commercial Banking, Leasing, Securities and Consumer Finance, with the remaining operations recorded in Others. Comparative information has been restated.

#### ***Wholesale Business Unit***

The Wholesale Business Unit provides financing, investment management, risk hedging, and settlement services as well as financial solutions that respond to wide-ranging client needs in relation to M&A and other advisory services and leasing, primarily for large- and mid-sized corporate clients in Japan. This business unit mainly consists of the wholesale businesses of SMBC, SMBC Nikko Securities Inc. (“SMBC Nikko Securities”), SMBC Trust Bank Ltd. (“SMBC Trust Bank”) and Sumitomo Mitsui Finance and Leasing Company, Limited (“SMFL”).

#### ***Retail Business Unit***

The Retail Business Unit provides financial services to both consumers residing in Japan and domestic small-sized companies, and mainly consists of the retail business of SMBC, SMBC Nikko Securities and SMBC Trust Bank together with three consumer finance companies, Sumitomo Mitsui Card Company, Limited, Cedyna Financial Corporation and SMBC Consumer Finance Co., Ltd. This business unit offers a wide range of products and services for consumers, including wealth management, settlement services, consumer finance and housing loans, in order to address the financial needs of all individual customers. For small-sized companies, this business unit provides a wide array of financial products and services to comprehensively address business owners’ needs as both corporate managers and individuals such as business and asset succession.

### ***International Business Unit***

The International Business Unit supports the global businesses of a diverse range of clients, such as Japanese companies operating overseas, non-Japanese companies, financial institutions, and government agencies and public corporations of various countries. 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, derivatives and global cash management services. This business unit mainly consists of the international businesses of SMBC, SMBC Nikko Securities, SMBC Trust Bank, SMFL and their foreign subsidiaries.

### ***Global Markets Business Unit***

The Global Markets Business Unit offers solutions through foreign exchange products, derivatives, bonds, stocks, and other marketable financial products and also undertakes asset liability management operations, which help comprehensively control balance sheet liquidity risks and interest rate risks. This business unit consists of the Treasury Unit of SMBC and the Product Unit of SMBC Nikko Securities.

### ***Head office account and others***

The Head office account and others represent the difference between the aggregate of the Wholesale Business Unit, the Retail Business Unit, the International Business Unit and the Global Markets Business Unit, and the SMBC Group as a whole. It mainly consists of administrative expenses related to headquarters operations and other subsidiaries and equity-method associates, including The Japan Research Institute, Limited and Sumitomo Mitsui Asset Management Company, Limited. It also includes internal transactions between the SMBC 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 of each segment is calculated by deducting general and administrative expenses (i.e., the total of personnel expense, non-personnel expense and tax), and by adding or deducting others (i.e., share of profit or loss of equity-method associates, cooperated profit and loss based on internal managerial accounting) to or from consolidated 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 SMBC 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, 2018:

|                                                    | Wholesale<br>Business<br>Unit | Retail<br>Business<br>Unit | International<br>Business<br>Unit | Global Markets<br>Business<br>Unit | Head office<br>account and<br>others | Total     |
|----------------------------------------------------|-------------------------------|----------------------------|-----------------------------------|------------------------------------|--------------------------------------|-----------|
|                                                    | (In billions)                 |                            |                                   |                                    |                                      |           |
| Consolidated gross profit <sup>(1)</sup> . . . . . | ¥ 772.9                       | ¥ 1,311.7                  | ¥ 632.0                           | ¥ 356.2                            | ¥ (91.7)                             | ¥ 2,981.1 |
| General and administrative expenses . . .          | (347.9)                       | (1,027.7)                  | (280.7)                           | (53.9)                             | (106.0)                              | (1,816.2) |
| Others <sup>(2)</sup> . . . . .                    | 53.7                          | 15.6                       | 46.9                              | 17.5                               | (94.8)                               | 38.9      |
| Consolidated net business profit . . . . .         | ¥ 478.7                       | ¥ 299.6                    | ¥ 398.2                           | ¥ 319.8                            | ¥ (292.5)                            | ¥ 1,203.8 |

### For the fiscal year ended March 31, 2017:

|                                                    | Wholesale<br>Business<br>Unit | Retail<br>Business<br>Unit | International<br>Business<br>Unit | Global Markets<br>Business<br>Unit | Head office<br>account and<br>others | Total     |
|----------------------------------------------------|-------------------------------|----------------------------|-----------------------------------|------------------------------------|--------------------------------------|-----------|
|                                                    | (In billions)                 |                            |                                   |                                    |                                      |           |
| Consolidated gross profit <sup>(1)</sup> . . . . . | ¥ 776.4                       | ¥ 1,313.9                  | ¥ 566.1                           | ¥ 346.8                            | ¥ (82.5)                             | ¥ 2,920.7 |
| General and administrative expenses . . .          | (344.8)                       | (1,041.1)                  | (241.2)                           | (50.2)                             | (135.1)                              | (1,812.4) |
| Others <sup>(2)</sup> . . . . .                    | 45.6                          | 12.1                       | 38.5                              | 8.2                                | (79.8)                               | 24.6      |
| Consolidated net business profit . . . . .         | ¥ 477.2                       | ¥ 284.9                    | ¥ 363.4                           | ¥ 304.8                            | ¥ (297.4)                            | ¥ 1,132.9 |

### For the fiscal year ended March 31, 2016:

|                                                    | Wholesale<br>Business<br>Unit | Retail<br>Business<br>Unit | International<br>Business<br>Unit | Global Markets<br>Business<br>Unit | Head office<br>account and<br>others | Total     |
|----------------------------------------------------|-------------------------------|----------------------------|-----------------------------------|------------------------------------|--------------------------------------|-----------|
|                                                    | (In billions)                 |                            |                                   |                                    |                                      |           |
| Consolidated gross profit <sup>(1)</sup> . . . . . | ¥ 749.2                       | ¥ 1,272.7                  | ¥ 588.8                           | ¥ 354.1                            | ¥ (60.8)                             | ¥ 2,904.0 |
| General and administrative expenses . . .          | (325.3)                       | (1,000.6)                  | (236.5)                           | (49.2)                             | (113.2)                              | (1,724.8) |
| Others <sup>(2)</sup> . . . . .                    | 48.0                          | 10.0                       | (23.9)                            | 8.8                                | (79.2)                               | (36.3)    |
| Consolidated net business profit . . . . .         | ¥ 471.9                       | ¥ 282.1                    | ¥ 328.4                           | ¥ 313.7                            | ¥ (253.2)                            | ¥ 1,142.9 |

(1) Consolidated 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” includes share of profit or loss of equity-method associates and cooperated profit and loss, that is, profit and loss double-accounted for in the managerial accounting.

## 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:

|                                                             | For the fiscal year ended March 31, |          |          |
|-------------------------------------------------------------|-------------------------------------|----------|----------|
|                                                             | 2018                                | 2017     | 2016     |
|                                                             | (In billions)                       |          |          |
| Consolidated net business profit                            | ¥1,203.8                            | ¥1,132.9 | ¥1,142.9 |
| Differences between management reporting and Japanese GAAP: |                                     |          |          |
| Total credit costs                                          | (94.2)                              | (164.4)  | (102.8)  |
| Gains on equity instruments                                 | 118.9                               | 55.0     | 69.0     |
| Extraordinary gains or losses and others                    | (119.6)                             | (44.2)   | (128.9)  |
| Profit before tax under Japanese GAAP                       | 1,108.9                             | 979.3    | 980.2    |
| Differences between IFRS and Japanese GAAP:                 |                                     |          |          |
| Scope of consolidation                                      | (1.6)                               | (12.0)   | (3.1)    |
| Derivative financial instruments                            | (20.7)                              | (110.9)  | 173.1    |
| Investment securities                                       | 68.8                                | (8.8)    | 56.6     |
| Loans and advances                                          | (33.5)                              | (0.7)    | (35.2)   |
| Investments in associates and joint ventures                | (1.6)                               | (15.9)   | 53.4     |
| Property, plant and equipment                               | 1.0                                 | 1.3      | 1.3      |
| Lease accounting                                            | (0.5)                               | (3.7)    | (1.5)    |
| Defined benefit plans                                       | (13.2)                              | 22.9     | 6.6      |
| Foreign currency translation                                | 12.7                                | 3.6      | 61.7     |
| Classification of equity and liability                      | 14.1                                | 8.4      | 5.4      |
| Others                                                      | (15.4)                              | 16.9     | 27.2     |
| Profit before tax under IFRS                                | ¥1,119.0                            | ¥ 880.4  | ¥1,325.7 |

## Information about Geographical Areas

The following table shows the total operating income in accordance with IFRS by the main geographical areas. The SMBC 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, |            |            |
|---------------------------------------|--|-------------------------------------|------------|------------|
|                                       |  | 2018                                | 2017       | 2016       |
|                                       |  | (In millions)                       |            |            |
| <b>Domestic<sup>(1)</sup>:</b>        |  |                                     |            |            |
| Japan                                 |  | ¥2,670,858                          | ¥2,356,627 | ¥2,840,058 |
| Total domestic                        |  | 2,670,858                           | 2,356,627  | 2,840,058  |
| <b>Foreign<sup>(1)(2)</sup>:</b>      |  |                                     |            |            |
| Americas                              |  | 350,118                             | 313,742    | 196,399    |
| Europe and Middle East                |  | 484,807                             | 401,320    | 352,232    |
| Asia and Oceania                      |  | 306,564                             | 276,206    | 299,537    |
| Total foreign                         |  | 1,141,489                           | 991,268    | 848,168    |
| Total operating income <sup>(3)</sup> |  | ¥3,812,347                          | ¥3,347,895 | ¥3,688,226 |

- (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 (loss) 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, 2018 and 2017 consisted of the following:

|                                    |             | At March 31,  |      |
|------------------------------------|-------------|---------------|------|
|                                    |             | 2018          | 2017 |
|                                    |             | (In millions) |      |
| Cash                               | ¥ 703,138   | ¥ 1,123,128   |      |
| Deposits with banks                | 53,992,931  | 46,207,027    |      |
| Total cash and deposits with banks | ¥54,696,069 | ¥47,330,155   |      |

The reconciliation of cash and cash equivalents used for the purposes of the consolidated statement of cash flows at March 31, 2018, 2017 and 2016 is shown as follows:

|                                                                           | At March 31,       |                    |                    |
|---------------------------------------------------------------------------|--------------------|--------------------|--------------------|
|                                                                           | 2018               | 2017               | 2016               |
|                                                                           | (In millions)      |                    |                    |
| Cash and deposits with banks . . . . .                                    | ¥54,696,069        | ¥47,330,155        | ¥43,144,654        |
| Less: term deposits with original maturities over three months . . . . .  | (627,837)          | (606,795)          | (597,960)          |
| Less: cash segregated as deposits and others . . . . .                    | (667,099)          | (478,541)          | (419,728)          |
| Add: cash and cash equivalents included in assets held for sale . . . . . | 15,323             | —                  | —                  |
| Cash and cash equivalents . . . . .                                       | <u>¥53,416,456</u> | <u>¥46,244,819</u> | <u>¥42,126,966</u> |

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 SMBC Group's foreign offices engaged in banking businesses in foreign countries. At March 31, 2018, 2017 and 2016, the reserve funds required to be maintained by the SMBC Group, which were included in cash and cash equivalents, amounted to ¥1,689,340 million, ¥1,644,684 million and ¥1,436,232 million, respectively.

## 6 TRADING ASSETS

Trading assets at March 31, 2018 and 2017 consisted of the following:

|                                | At March 31,       |                    |
|--------------------------------|--------------------|--------------------|
|                                | 2018               | 2017               |
|                                | (In millions)      |                    |
| Debt instruments . . . . .     | ¥ 2,841,148        | ¥ 3,339,928        |
| Equity instruments . . . . .   | 327,975            | 436,743            |
| Total trading assets . . . . . | <u>¥ 3,169,123</u> | <u>¥ 3,776,671</u> |

Trading debt instruments mainly consist of Japanese government bonds. Trading equity instruments mainly consist of publicly traded Japanese stocks.

## 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 SMBC Group enters into a variety of derivatives for trading and risk management purposes. The SMBC Group uses derivatives for trading activities, which include facilitating customer transactions, market-making and arbitrage activities. The SMBC Group also uses derivatives to reduce its exposures to market and credit risks as part of its asset and liability management.

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 SMBC 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, 2018 and 2017.

| At March 31, 2018                                |                     |                   |                   |                                |                 |                 |
|--------------------------------------------------|---------------------|-------------------|-------------------|--------------------------------|-----------------|-----------------|
|                                                  | Trading             |                   |                   | Risk Management <sup>(1)</sup> |                 |                 |
|                                                  | Notional amounts    | Assets            | Liabilities       | Notional amounts               | Assets          | Liabilities     |
|                                                  | (In millions)       |                   |                   |                                |                 |                 |
| Interest rate derivatives . . . . .              | ¥676,464,541        | ¥1,771,745        | ¥1,639,850        | ¥69,550,646                    | ¥300,376        | ¥333,182        |
| Futures . . . . .                                | 78,295,049          | 28,689            | 28,871            | 18,269,263                     | 5,534           | 1,167           |
| Listed Options . . . . .                         | 66,989,307          | 4,538             | 722               | —                              | —               | —               |
| Forwards . . . . .                               | 25,030,851          | 274               | 994               | —                              | —               | —               |
| Swaps . . . . .                                  | 429,498,805         | 1,651,945         | 1,500,361         | 51,131,039                     | 294,842         | 329,446         |
| OTC Options . . . . .                            | 76,650,529          | 86,299            | 108,902           | 150,344                        | —               | 2,569           |
| Currency derivatives . . . . .                   | 120,282,459         | 1,439,993         | 1,293,900         | 7,986,176                      | 283,248         | 112,322         |
| Futures . . . . .                                | 689                 | —                 | 19                | —                              | —               | —               |
| Listed Options . . . . .                         | —                   | —                 | —                 | —                              | —               | —               |
| Forwards . . . . .                               | 74,380,475          | 759,993           | 708,645           | 1,866,249                      | 49,440          | 24,929          |
| Swaps . . . . .                                  | 39,668,889          | 577,350           | 490,014           | 6,119,927                      | 233,808         | 87,393          |
| OTC Options . . . . .                            | 6,232,406           | 102,650           | 95,222            | —                              | —               | —               |
| Equity derivatives . . . . .                     | 3,354,789           | 71,344            | 105,194           | 2,219                          | —               | 155             |
| Futures . . . . .                                | 829,262             | 5,946             | 9,747             | —                              | —               | —               |
| Listed Options . . . . .                         | 1,779,546           | 42,209            | 68,341            | —                              | —               | —               |
| Forwards . . . . .                               | 7,564               | 745               | 208               | —                              | —               | —               |
| Swaps . . . . .                                  | 77,015              | 186               | 8,171             | 2,219                          | —               | 155             |
| OTC Options . . . . .                            | 661,402             | 22,258            | 18,727            | —                              | —               | —               |
| Commodity derivatives . . . . .                  | 161,539             | 6,516             | 4,948             | —                              | —               | —               |
| Futures . . . . .                                | 20,902              | 402               | 464               | —                              | —               | —               |
| Listed Options . . . . .                         | —                   | —                 | —                 | —                              | —               | —               |
| Forwards . . . . .                               | —                   | —                 | —                 | —                              | —               | —               |
| Swaps . . . . .                                  | 128,467             | 6,052             | 3,974             | —                              | —               | —               |
| OTC Options . . . . .                            | 12,170              | 62                | 510               | —                              | —               | —               |
| Credit derivatives . . . . .                     | 1,320,297           | 12,049            | 8,465             | —                              | —               | —               |
| Total derivative financial instruments . . . . . | <u>¥801,583,625</u> | <u>¥3,301,647</u> | <u>¥3,052,357</u> | <u>¥77,539,041</u>             | <u>¥583,624</u> | <u>¥445,659</u> |

| 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> |

(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 hedging instruments under Japanese GAAP. Under IFRS, the SMBC Group started to apply hedge accounting only for net investments in foreign operations as described below from April 1, 2017, and derivative financial instruments designated as hedging instruments are also categorized as “Risk Management.”

### ***Hedge accounting***

On April 1, 2017, the SMBC Group started to apply hedge accounting in order to reflect the effect of risk management activities on its consolidated financial statements to mitigate the foreign currency risk on exchange differences arising from the translation of net investments in foreign operations. The SMBC Group uses currency derivatives and foreign currency denominated financial liabilities as hedging instruments.

The effective portion of the gain or loss on the hedging instruments is recognized in other comprehensive income, whereas the ineffective portion of the gain or loss on the hedging instruments is recognized in net trading income in the consolidated income statement. The cumulative gain or loss recognized in other comprehensive income is recognized in the profit or loss on the disposal or partial disposal of the foreign operation.

At March 31, 2018, the fair values of derivative instruments designated as hedging instruments of net investments in foreign operations were assets of ¥49,440 million and liabilities of ¥24,929 million with notional

amounts of ¥1,866,249 million. In addition, the carrying amount of foreign currency denominated financial liabilities designated as hedging instruments was ¥208,294 million. There was no hedge ineffectiveness recognized in “Net trading income” for the fiscal year ended March 31, 2018.

### *Credit derivatives*

The SMBC 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, 2018 and 2017.

| At March 31, 2018                                     |                      |              |                |                  |                 |              |
|-------------------------------------------------------|----------------------|--------------|----------------|------------------|-----------------|--------------|
|                                                       | Protection purchased |              |                | Protection sold  |                 |              |
|                                                       | Notional amounts     | Assets       | Liabilities    | Notional amounts | Assets          | Liabilities  |
| (In millions)                                         |                      |              |                |                  |                 |              |
| Managing the SMBC Group’s credit risk portfolio ..... | ¥ 442,991            | ¥ 220        | ¥ 5,950        | ¥ 684,080        | ¥ 10,615        | ¥ 751        |
| Facilitating client transactions .....                | 106,352              | 87           | 1,732          | 86,874           | 1,127           | 32           |
| Total .....                                           | <u>¥ 549,343</u>     | <u>¥ 307</u> | <u>¥ 7,682</u> | <u>¥ 770,954</u> | <u>¥ 11,742</u> | <u>¥ 783</u> |

| At March 31, 2017                                     |                      |              |                |                  |                 |              |
|-------------------------------------------------------|----------------------|--------------|----------------|------------------|-----------------|--------------|
|                                                       | Protection purchased |              |                | Protection sold  |                 |              |
|                                                       | Notional amounts     | Assets       | Liabilities    | Notional amounts | Assets          | Liabilities  |
| (In millions)                                         |                      |              |                |                  |                 |              |
| Managing the SMBC 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> |

The following table summarizes the notional amounts of the SMBC Group’s credit derivative portfolio by type of counterparty at March 31, 2018 and 2017.

|                                                    | At March 31, 2018    |                  | At March 31, 2017    |                  |
|----------------------------------------------------|----------------------|------------------|----------------------|------------------|
|                                                    | Protection purchased | Protection sold  | Protection purchased | Protection sold  |
| (In millions)                                      |                      |                  |                      |                  |
| Banks and broker-dealers .....                     | ¥ 537,843            | ¥ 770,954        | ¥ 599,896            | ¥ 788,684        |
| Insurance and other financial guaranty firms ..... | 11,500               | —                | 11,500               | —                |
| Total .....                                        | <u>¥ 549,343</u>     | <u>¥ 770,954</u> | <u>¥ 611,396</u>     | <u>¥ 788,684</u> |

## **8 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

Financial assets at fair value through profit or loss at March 31, 2018 and 2017 consisted of the following:

|                                                                   | At March 31,       |                    |
|-------------------------------------------------------------------|--------------------|--------------------|
|                                                                   | 2018               | 2017               |
| (In millions)                                                     |                    |                    |
| Debt instruments .....                                            | ¥ 1,528,921        | ¥ 1,582,957        |
| Equity instruments .....                                          | 18,751             | 16,136             |
| Total financial assets at fair value through profit or loss ..... | <u>¥ 1,547,672</u> | <u>¥ 1,599,093</u> |

The SMBC Group classifies the entire hybrid instrument as financial assets at fair value through profit or loss when the SMBC 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 SMBC 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, 2018 and 2017 consisted of the following:

|                                                                       | At March 31,  |             |
|-----------------------------------------------------------------------|---------------|-------------|
|                                                                       | 2018          | 2017        |
|                                                                       | (In millions) |             |
| <b>Held-to-maturity investments:</b>                                  |               |             |
| <b>Domestic:</b>                                                      |               |             |
| Japanese government bonds . . . . .                                   | ¥ 372,459     | ¥ 1,160,751 |
| Japanese municipal bonds . . . . .                                    | —             | 7,463       |
| Japanese corporate bonds . . . . .                                    | —             | 5,205       |
| Total domestic . . . . .                                              | 372,459       | 1,173,419   |
| Total held-to-maturity investments . . . . .                          | ¥ 372,459     | ¥ 1,173,419 |
| <b>Available-for-sale financial assets:</b>                           |               |             |
| <b>Domestic:</b>                                                      |               |             |
| Japanese government bonds . . . . .                                   | ¥ 7,685,303   | ¥ 5,722,674 |
| Japanese municipal bonds . . . . .                                    | 47,032        | 82,780      |
| Japanese corporate bonds . . . . .                                    | 296,601       | 363,550     |
| Total domestic debt instruments . . . . .                             | 8,028,936     | 6,169,004   |
| Equity instruments . . . . .                                          | 5,161,734     | 5,117,629   |
| Total domestic . . . . .                                              | 13,190,670    | 11,286,633  |
| <b>Foreign:</b>                                                       |               |             |
| U.S. Treasury and other U.S. government agency bonds . . . . .        | 3,246,646     | 3,468,263   |
| Bonds issued by other governments and official institutions . . . . . | 2,187,450     | 1,669,853   |
| Mortgage-backed securities . . . . .                                  | 488,183       | 633,629     |
| Other debt instruments . . . . .                                      | 331,491       | 183,021     |
| Total foreign debt instruments . . . . .                              | 6,253,770     | 5,954,766   |
| Equity instruments . . . . .                                          | 678,176       | 659,119     |
| Total foreign . . . . .                                               | 6,931,946     | 6,613,885   |
| Total available-for-sale financial assets . . . . .                   | ¥20,122,616   | ¥17,900,518 |
| Total investment securities . . . . .                                 | ¥20,495,075   | ¥19,073,937 |

## 10 LOANS AND ADVANCES

The following table presents loans and advances at March 31, 2018 and 2017 by industry classification.

|                                                                                    | At March 31,  |             |
|------------------------------------------------------------------------------------|---------------|-------------|
|                                                                                    | 2018          | 2017        |
|                                                                                    | (In millions) |             |
| <b>Domestic:</b>                                                                   |               |             |
| Manufacturing .....                                                                | ¥ 7,961,620   | ¥ 9,578,147 |
| Agriculture, forestry, fisheries and mining .....                                  | 145,957       | 174,021     |
| Construction .....                                                                 | 947,765       | 1,151,989   |
| Transportation, communications and public enterprises .....                        | 5,424,054     | 5,365,225   |
| Wholesale and retail .....                                                         | 5,288,767     | 5,721,005   |
| Finance and insurance .....                                                        | 2,777,862     | 2,844,546   |
| Real estate and goods rental and leasing .....                                     | 9,017,664     | 10,101,846  |
| Services .....                                                                     | 4,255,228     | 4,885,247   |
| Municipalities .....                                                               | 1,000,286     | 1,216,211   |
| Lease financing .....                                                              | 14,629        | 2,706,641   |
| Consumer <sup>(1)</sup> .....                                                      | 16,363,489    | 19,096,755  |
| Others .....                                                                       | 4,633,306     | 5,178,461   |
| Total domestic .....                                                               | 57,830,627    | 68,020,094  |
| <b>Foreign:</b>                                                                    |               |             |
| Public sector .....                                                                | 372,008       | 299,746     |
| Financial institutions .....                                                       | 4,496,646     | 4,588,001   |
| Commerce and industry .....                                                        | 21,023,885    | 21,041,905  |
| Lease financing .....                                                              | 357,660       | 404,658     |
| Others .....                                                                       | 1,779,101     | 1,836,322   |
| Total foreign .....                                                                | 28,029,300    | 28,170,632  |
| Gross loans and advances .....                                                     | 85,859,927    | 96,190,726  |
| Adjust: Unearned income, unamortized premiums—net and deferred loan fees—net ..... | (239,181)     | (236,425)   |
| Less: Allowance for loan losses .....                                              | (491,676)     | (680,456)   |
| Net loans and advances .....                                                       | ¥85,129,070   | ¥95,273,845 |

(1) The balance in Consumer mainly consists of housing loans. The housing loan balances amounted to ¥11,482,678 million and ¥13,766,771 million at March 31, 2018 and 2017, respectively.

Reconciliation of allowance for loan losses is as follows:

|                                                             | For the fiscal year ended March 31, |               |          |
|-------------------------------------------------------------|-------------------------------------|---------------|----------|
|                                                             | 2018                                | 2017          | 2016     |
|                                                             |                                     | (In millions) |          |
| Allowance for loan losses at beginning of period            | ¥680,456                            | ¥722,717      | ¥793,552 |
| Provision for loan losses                                   | 126,623                             | 141,457       | 118,750  |
| Charge-offs:                                                |                                     |               |          |
| Domestic                                                    | 161,526                             | 157,373       | 173,431  |
| Foreign                                                     | 23,534                              | 33,135        | 20,218   |
| Total                                                       | 185,060                             | 190,508       | 193,649  |
| Recoveries:                                                 |                                     |               |          |
| Domestic                                                    | 9,658                               | 9,852         | 9,477    |
| Foreign                                                     | 574                                 | 445           | 871      |
| Total                                                       | 10,232                              | 10,297        | 10,348   |
| Net charge-offs                                             | 174,828                             | 180,211       | 183,301  |
| Others <sup>(1)</sup>                                       | (140,575)                           | (3,507)       | (6,284)  |
| Allowance for loan losses at end of period                  | ¥491,676                            | ¥680,456      | ¥722,717 |
| Allowance for loan losses applicable to foreign activities: |                                     |               |          |
| Balance at beginning of period                              | ¥128,347                            | ¥134,664      | ¥100,783 |
| Balance at end of period                                    | ¥114,306                            | ¥128,347      | ¥134,664 |
| Provision for loan losses                                   | ¥ 19,872                            | ¥ 29,699      | ¥ 60,002 |

- (1) Others mainly include the exclusion of the allowance for loans and advances made by Kansai Urban Banking Corporation (“KUBC”) and THE MINATO BANK, LTD. (“The Minato Bank”), both of which had been the Company’s subsidiaries but became its equity-method associates, and the exclusion of the allowance for loans and advances made by SMFL which were reclassified as assets held for sale during the fiscal year ended March 31, 2018. The amount for the fiscal years ended March 31, 2017 and 2016 mainly includes foreign exchange transactions.

## 11 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The following table presents the SMBC Group's principal associates and joint venture at March 31, 2018. Investments in associates and joint ventures of the SMBC Group are accounted for using the equity method unless they are held for sale.

| <u>Company Name</u>                                           | <u>Country of<br/>Incorporation</u> | <u>Proportion<br/>of Ownership<br/>Interest<sup>(1)</sup></u><br>(%) | <u>Proportion<br/>of Voting<br/>Rights<sup>(1)</sup></u><br>(%) | <u>Main Business</u>                                      |
|---------------------------------------------------------------|-------------------------------------|----------------------------------------------------------------------|-----------------------------------------------------------------|-----------------------------------------------------------|
| <b>Principal Associates</b>                                   |                                     |                                                                      |                                                                 |                                                           |
| THE MINATO BANK, LTD. ....                                    | Japan                               | 3.9                                                                  | 34.1 <sup>(2)</sup>                                             | Commercial banking                                        |
| Kansai Urban Banking Corporation ....                         | Japan                               | 47.9                                                                 | 48.1                                                            | Commercial banking                                        |
| The Japan Net Bank, Limited ....                              | Japan                               | 41.1                                                                 | 41.1                                                            | Internet banking                                          |
| PT Bank Tabungan Pensiunan Nasional<br>Tbk .....              | Indonesia                           | 40.6                                                                 | 40.6                                                            | Commercial banking                                        |
| The Bank of East Asia, Limited ....                           | China                               | 19.4                                                                 | 19.4                                                            | Commercial banking                                        |
| ACLEDA Bank Plc. ....                                         | Cambodia                            | 18.2                                                                 | 18.2                                                            | Commercial banking                                        |
| Vietnam Export Import Commercial Joint<br>Stock Bank .....    | Vietnam                             | 15.0                                                                 | 15.0                                                            | Commercial banking                                        |
| Sumitomo Mitsui Auto Service<br>Company, Limited .....        | Japan                               | 33.9                                                                 | 33.9                                                            | Leasing                                                   |
| NEC Capital Solutions Limited ....                            | Japan                               | 25.0                                                                 | 25.0                                                            | Leasing                                                   |
| POCKET CARD CO., LTD. ....                                    | Japan                               | 20.0                                                                 | 20.0                                                            | Credit card                                               |
| JSOL Corporation .....                                        | Japan                               | 50.0                                                                 | 50.0                                                            | System development and<br>data processing                 |
| Sakura Information Systems Co., Ltd. ...                      | Japan                               | 49.0                                                                 | 49.0                                                            | System engineering and<br>data processing                 |
| Daiwa SB Investments Ltd. ....                                | Japan                               | 43.9                                                                 | 43.9                                                            | Investment advisory and<br>investment trust<br>management |
| China Post & Capital Fund Management<br>Co., Ltd. ....        | China                               | 23.6                                                                 | 23.6                                                            | Investment advisory and<br>investment trust<br>management |
| <b>Principal Joint Venture</b>                                |                                     |                                                                      |                                                                 |                                                           |
| Daiwa Securities SMBC Principal<br>Investments Co., Ltd. .... | Japan                               | 40.0                                                                 | 40.0                                                            | Investments, fund<br>management                           |

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

(2) The SMBC Group has a 3.9% direct holding in THE MINATO BANK, LTD., and can exercise a further 30.2% of the voting rights held by SMBC's retirement benefit trust under contractual agreements between SMBC and the retirement benefit trust.

The SMBC 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 SMBC 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 SMBC 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 SMBC Group has contracts or arrangements with other investors by which the SMBC Group loses the power to exert significant influence over such investees.

THE MINATO BANK, LTD. and Kansai Urban Banking Corporation ceased to be consolidated subsidiaries of the SMBC Group and became its associates during the fiscal year ended March 31, 2018. The SMBC group received a cash consideration of ¥88,389 million for losing control of these companies. The total amount of cash and cash equivalents in these companies was ¥940,568 million. Total amounts of assets and liabilities other than cash or cash equivalents in these companies were ¥7,314,397 million and ¥7,883,267 million, respectively. As a result of remeasuring the interests retained in these companies at fair value, the SMBC Group recognized losses of ¥22,037 million, which are included in “Other expenses” in the consolidated income statement. On the other hand, the SMBC Group recognized profit of ¥19,392 million through above-mentioned transition, which are included in “Other income” in the consolidated income statement.

The SMBC 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<br>March 31, |          |
|---------------------------------------------------------------------------|-----------------------------------------------|----------|
|                                                                           | 2018                                          | 2017     |
|                                                                           | (In millions)                                 |          |
| Carrying amount of investments in associates and joint ventures . . . . . | ¥730,414                                      | ¥675,704 |
| Share of:                                                                 |                                               |          |
| Profit from continuing operations . . . . .                               | 49,323                                        | 29,318   |
| Other comprehensive income (loss) . . . . .                               | 7,885                                         | (21,602) |
| Total comprehensive income . . . . .                                      | 57,208                                        | 7,716    |

There are no significant restrictions on the ability of associates or joint ventures to transfer funds to the SMBC 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, 2018 and 2017.

|                                                    | Assets for<br>rent | Land     | Buildings | Leased<br>assets | Others    | Total       |
|----------------------------------------------------|--------------------|----------|-----------|------------------|-----------|-------------|
|                                                    | (In millions)      |          |           |                  |           |             |
| 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 April 1, 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)          | (3,058)  | (1,089)   | (74)             | (1,771)   | (158,164)   |
| 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)            | 3,896    | 10,813    | 97               | (24,451)  | (19,606)    |
| 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   |
| Additions .....                                    | 415,397            | 44       | 30,144    | 1,775            | 54,951    | 502,311     |
| Acquisition of subsidiaries and businesses .....   | 304,233            | —        | —         | —                | 24        | 304,257     |
| Disposals <sup>(1)</sup> .....                     | (1,640,222)        | (52,327) | (33,796)  | (660)            | (10,064)  | (1,737,069) |
| Depreciation .....                                 | (91,906)           | —        | (21,344)  | (2,061)          | (30,663)  | (145,974)   |
| Impairment losses .....                            | —                  | (2,446)  | (25,203)  | (136)            | (31)      | (27,816)    |
| Exchange differences .....                         | (66,033)           | (4)      | (284)     | (3)              | (506)     | (66,830)    |
| Others .....                                       | 302                | (192)    | 11,673    | 47               | (16,632)  | (4,802)     |
| Net carrying amount .....                          | 580,687            | 459,567  | 331,997   | 6,149            | 131,732   | 1,510,132   |
| Cost .....                                         | 607,769            | 466,046  | 738,023   | 17,373           | 413,945   | 2,243,156   |
| Accumulated depreciation and impairment losses ... | (27,082)           | (6,479)  | (406,026) | (11,224)         | (282,213) | (733,024)   |
| Net carrying amount at March 31, 2018 .....        | ¥ 580,687          | ¥459,567 | ¥ 331,997 | ¥ 6,149          | ¥ 131,732 | ¥ 1,510,132 |

(1) Disposals include property, plant and equipment owned by SMFL reclassified as “Assets held for sale” during the fiscal year ended March 31, 2018. In addition, Disposals include property, plant and equipment related to KUBC and The Minato Bank, both of which had been the Company’s subsidiaries but became its equity method associates in March, 2018.

The impairment losses on property, plant and equipment are included in “Other expenses” in the consolidated income statement.

The SMBC Group had ¥2,626 million and ¥2,773,096 million of contractual commitments to acquire property, plant and equipment at March 31, 2018 and 2017, respectively.

The carrying amount of items of property, plant and equipment on which there was a restriction on title was ¥6,149 million and ¥7,187 million at March 31, 2018 and 2017, respectively.

## 13 LEASES

### As Lessee

The SMBC 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, 2018 and 2017 consisted of the following:

|                                      | <b>At March 31,</b>  |             |
|--------------------------------------|----------------------|-------------|
|                                      | <b>2018</b>          | <b>2017</b> |
|                                      | <b>(In millions)</b> |             |
| Tangible assets:                     |                      |             |
| Land and buildings                   | ¥ 2,837              | ¥ 3,295     |
| Other tangible assets <sup>(1)</sup> | 3,312                | 3,892       |
| Total <sup>(2)</sup>                 | 6,149                | 7,187       |
| Intangible assets:                   |                      |             |
| Software                             | 144                  | 185         |
| Total                                | ¥ 6,293              | ¥ 7,372     |

(1) Other tangible assets include mainly equipment, machinery and vehicles.

(2) Cross-reference to Leased assets in Note 12 "Property, Plant and Equipment."

### ***Finance lease commitments***

The total of future minimum lease payments and their present value under finance leases at March 31, 2018 and 2017 were as follows:

|                                                           | <b>At March 31,</b>  |             |
|-----------------------------------------------------------|----------------------|-------------|
|                                                           | <b>2018</b>          | <b>2017</b> |
|                                                           | <b>(In millions)</b> |             |
| Not later than one year                                   | ¥ 2,567              | ¥ 27,901    |
| Later than one year and not later than five years         | 4,664                | 78,958      |
| Later than five years                                     | 3,086                | 6,129       |
| Total                                                     | 10,317               | 112,988     |
| Less: Future interest charges                             | (1,151)              | (6,064)     |
| Present value of finance lease commitments <sup>(1)</sup> | ¥ 9,166              | ¥106,924    |

(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, 2018 and 2017, the total amounts of future minimum sublease payments to be received under non-cancellable subleases were nil and ¥108,351 million, respectively.

### ***Operating lease commitments***

The total amounts of future minimum lease payments under non-cancellable operating leases at March 31, 2018 and 2017 were as follows:

|                                                                            | <b>At March 31,</b>  |             |
|----------------------------------------------------------------------------|----------------------|-------------|
|                                                                            | <b>2018</b>          | <b>2017</b> |
|                                                                            | <b>(In millions)</b> |             |
| Not later than one year                                                    | ¥ 42,329             | ¥ 44,746    |
| Later than one year and not later than five years                          | 129,298              | 124,946     |
| Later than five years                                                      | 121,419              | 129,312     |
| Total future minimum lease payments under non-cancellable operating leases | ¥293,046             | ¥299,004    |

For the fiscal years ended March 31, 2018, 2017 and 2016, ¥50,561 million, ¥49,047 million and ¥50,801 million were recognized as expenses in respect of operating lease and sublease agreements, of which ¥50,058 million, ¥48,527 million and ¥50,278 million related to minimum lease payments, and ¥503 million, ¥520 million and ¥523 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 SMBC Group leases assets to third parties under finance leases or operating leases, including machinery, equipment, aircraft, vessel and property.

At March 31, 2018, the assets and liabilities of SMFL were reclassified as held for sale due to the reorganization of the joint leasing partnership. As a result, the balances of finance lease receivable and operating lease receivable decreased.

### 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, 2018 and 2017 were as follows:

| At March 31, 2018                                       |                                  |                               |                                                                                |                                                |
|---------------------------------------------------------|----------------------------------|-------------------------------|--------------------------------------------------------------------------------|------------------------------------------------|
|                                                         | Gross investment<br>in the lease | Unearned<br>finance<br>income | Present value of<br>the minimum<br>lease payments<br>receivable <sup>(1)</sup> | Unguaranteed<br>residual values <sup>(1)</sup> |
|                                                         | (In millions)                    |                               |                                                                                |                                                |
| Not later than one year . . . . .                       | ¥ 54,501                         | ¥ 13,470                      | ¥ 41,031                                                                       | ¥ 6,483                                        |
| Later than one year and not later than five years . . . | 227,793                          | 29,746                        | 198,047                                                                        | 43,206                                         |
| Later than five years . . . . .                         | 73,979                           | 11,574                        | 62,405                                                                         | 21,117                                         |
| Total . . . . .                                         | ¥ 356,273                        | ¥ 54,790                      | ¥ 301,483                                                                      | ¥ 70,806                                       |

| At March 31, 2017                                       |                                  |                               |                                                                                |                                                |
|---------------------------------------------------------|----------------------------------|-------------------------------|--------------------------------------------------------------------------------|------------------------------------------------|
|                                                         | Gross investment<br>in the lease | Unearned<br>finance<br>income | Present value of<br>the minimum<br>lease payments<br>receivable <sup>(1)</sup> | Unguaranteed<br>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                                      |

(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 ¥1,828 million and ¥10,827 million at March 31, 2018 and 2017, respectively.

### Operating lease receivable

The total amounts of the future minimum lease payments receivable under non-cancellable operating leases at March 31, 2018 and 2017 were as follows:

|                                                   | At March 31,  |            |
|---------------------------------------------------|---------------|------------|
|                                                   | 2018          | 2017       |
|                                                   | (In millions) |            |
| Not later than one year                           | ¥ 38,072      | ¥ 215,329  |
| Later than one year and not later than five years | 70,813        | 790,394    |
| Later than five years                             | 18,857        | 484,896    |
| Total                                             | ¥ 127,742     | ¥1,490,619 |

## 14 INTANGIBLE ASSETS

### Goodwill

The table below shows the changes in goodwill by business segment for the fiscal years ended March 31, 2018 and 2017.

|                                                         | Wholesale<br>Business Unit | Retail<br>Business Unit | International<br>Business Unit | Head office<br>account and<br>others | Total     |
|---------------------------------------------------------|----------------------------|-------------------------|--------------------------------|--------------------------------------|-----------|
|                                                         | (In millions)              |                         |                                |                                      |           |
| Gross amount of goodwill                                | ¥ —                        | ¥ 63,418                | ¥ 13,233                       | ¥ 397,285                            | ¥ 473,936 |
| Accumulated impairment losses                           | —                          | —                       | —                              | (13,149)                             | (13,149)  |
| Net carrying amount at March 31, 2016                   | —                          | 63,418                  | 13,233                         | 384,136                              | 460,787   |
| Acquisitions <sup>(1)</sup>                             | 2,417                      | —                       | —                              | 38,053                               | 40,470    |
| Impairment losses                                       | —                          | —                       | —                              | (74,616)                             | (74,616)  |
| Exchange differences                                    | —                          | —                       | (186)                          | —                                    | (186)     |
| Net carrying amount                                     | 2,417                      | 63,418                  | 13,047                         | 347,573                              | 426,455   |
| Gross amount of goodwill                                | 2,417                      | 63,418                  | 13,047                         | 435,338                              | 514,220   |
| Accumulated impairment losses                           | —                          | —                       | —                              | (87,765)                             | (87,765)  |
| Net carrying amount at March 31, 2017                   | 2,417                      | 63,418                  | 13,047                         | 347,573                              | 426,455   |
| Disposals <sup>(2)</sup>                                | —                          | —                       | —                              | (11,197)                             | (11,197)  |
| Impairment losses                                       | (956)                      | —                       | (4,292)                        | (23,359)                             | (28,607)  |
| Reclassification to assets held for sale <sup>(3)</sup> | (1,461)                    | —                       | (8,166)                        | (102,710)                            | (112,337) |
| Exchange differences                                    | —                          | —                       | (589)                          | —                                    | (589)     |
| Net carrying amount                                     | —                          | 63,418                  | —                              | 210,307                              | 273,725   |
| Gross amount of goodwill                                | 956                        | 63,418                  | 4,292                          | 321,431                              | 390,097   |
| Accumulated impairment losses                           | (956)                      | —                       | (4,292)                        | (111,124)                            | (116,372) |
| Net carrying amount at March 31, 2018                   | ¥ —                        | ¥ 63,418                | ¥ —                            | ¥ 210,307                            | ¥ 273,725 |

(1) The SMBC Group recognized goodwill of ¥2,417 million in Wholesale Business Unit resulting from the acquisition of SMFL Capital Company, Limited, formerly known as GE Japan in April 2016 and ¥38,053 million in Head office account and others resulting from the acquisition of Sumitomo Mitsui Asset Management Company, Limited (“SMAM”) in July 2016. For additional information, refer to Note 49 “Acquisitions.”

(2) “Disposals” in Head office account and others includes amount of goodwill relating to Kansai Urban Banking Corporation (“KUBC”) which ceased to be its consolidated subsidiaries and became its associates during the fiscal year ended March 31, 2018.

(3) The SMBC Group reclassified goodwill of ¥112,337 million allocated to Sumitomo Mitsui Finance and Leasing Company, Limited (“SMFL”) and its subsidiaries to assets held for sale at March 31, 2018. For additional information, refer to Note 50 “Assets and Disposal Groups Held for Sale.”

The SMBC Group has four main business segments: the Wholesale Business Unit, the Retail Business Unit, the International Business Unit and the Global Markets Business Unit, with the remaining operations recorded in the Head office account and others. The SMBC Group changed its business segment information for the fiscal year ended March 31, 2018 in connection with the introduction of Group-wide business units, which determine strategies for each customer segment across the SMBC Group companies. The business was previously reported as Commercial Banking, Leasing, Securities and Consumer Finance, with the remaining operations recorded in Others. Comparative information has been restated.

### ***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, 2018, the SMBC Group allocated goodwill to the Retail Business Unit of SMBC Consumer Finance Co., Ltd. ("SMBC Consumer Finance") amounting to ¥56,692 million and to the Head office account and others of SMBC Nikko Securities Inc. ("SMBC Nikko Securities") and SMAM amounting to ¥172,253 million and ¥38,053 million, respectively.

At March 31, 2017, the SMBC Group allocated goodwill to the Retail Business Unit of SMBC Consumer Finance amounting to ¥56,692 million and to the Head office account and others of SMBC Nikko Securities, SMFL, SMAM, SMBC Trust Bank Ltd. ("SMBC Trust Bank"), and KUBC amounting to ¥172,253 million, ¥102,710 million, ¥38,053 million, ¥23,359 million, and ¥11,197 million, respectively.

The aggregate amounts of other goodwill were ¥6,727 million and ¥22,191 million at March 31, 2018 and 2017, respectively, and they were not considered individually significant.

#### ***Timing of impairment tests***

The SMBC 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 SMBC Group determined the recoverable amount of SMBC Friend Securities Co., Ltd. ("SMBC Friend Securities"), which was merged with SMBC Nikko Securities on January 1, 2018, for the fiscal year ended March 31, 2017, and SMFL for the fiscal year ended March 31, 2018, 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 SMBC 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, and SMFL for the fiscal year ended March 31, 2018.

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, 2018 and 2017 were as follows:

|                                           | <u>SMBC Trust Bank</u> |                              |             |             | <u>SMBC</u>       | <u>SMBC</u>     |             |
|-------------------------------------------|------------------------|------------------------------|-------------|-------------|-------------------|-----------------|-------------|
|                                           | <u>Corporate</u>       | <u>Retail</u>                | <u>KUBC</u> | <u>SMFL</u> | <u>Nikko</u>      | <u>Consumer</u> | <u>SMAM</u> |
|                                           | <u>Business</u>        | <u>Banking<sup>(1)</sup></u> |             |             | <u>Securities</u> | <u>Finance</u>  |             |
| For the fiscal year ended March 31, 2018: |                        |                              |             |             |                   |                 |             |
| Pre-tax discount rate .....               | 12.61%                 | 9.91%                        | —           | —           | 11.42%            | 11.20%          | 9.01%       |
| Growth rate .....                         | 1.00%                  | 1.00%                        | —           | —           | 1.00%             | 1.00%           | 1.00%       |
| 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%       |

(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, 2018 and 2017.

***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 Trust Bank was determined based on the value in use. For the fiscal year ended March 31, 2018, the value in use of SMBC Trust Bank decreased to less than its carrying amount, primarily due to the revision of the business plan and the key assumptions. As a result, the SMBC Group recognized an impairment loss of ¥23,359 million, equal to the total carrying amount of the goodwill relating to the SMBC Trust Bank, for the fiscal year ended March 31, 2018.

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 SMBC 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 SMBC Group recognized an impairment loss of ¥74,616 million, equal to the total carrying amount of the goodwill relating to SMBC Friend Securities, for the fiscal year ended March 31, 2017.

The impairment losses on goodwill are included in “Other expenses” in the consolidated income statement.

### Other intangible assets

The table below shows the changes in other intangible assets for the fiscal years ended March 31, 2018 and 2017.

|                                                    | Internally<br>generated<br>software | Purchased<br>software | Contractual<br>customer<br>relationships | Trademarks | Other<br>intangibles | Total      |
|----------------------------------------------------|-------------------------------------|-----------------------|------------------------------------------|------------|----------------------|------------|
|                                                    | (In millions)                       |                       |                                          |            |                      |            |
| 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 April 1, 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    |
| Additions .....                                    | 93,977                              | 40,024                | —                                        | —          | 2,169                | 136,170    |
| Acquisition of subsidiaries and businesses .....   | —                                   | 222                   | —                                        | —          | —                    | 222        |
| Disposals <sup>(1)</sup> .....                     | (8,420)                             | (11,928)              | (57,987)                                 | —          | (1,844)              | (80,179)   |
| Amortization .....                                 | (84,662)                            | (43,818)              | (20,192)                                 | (4,280)    | (4,473)              | (157,425)  |
| Impairment losses .....                            | —                                   | —                     | (1,830)                                  | —          | (5,229)              | (7,059)    |
| Exchange differences .....                         | 142                                 | (731)                 | —                                        | —          | (29)                 | (618)      |
| Others .....                                       | 343                                 | 2,099                 | —                                        | —          | (1,489)              | 953        |
| Net carrying amount .....                          | 293,517                             | 125,565               | 90,455                                   | 11,573     | 41,067               | 562,177    |
| Cost .....                                         | 650,632                             | 340,593               | 172,950                                  | 46,116     | 54,024               | 1,264,315  |
| Accumulated amortization and impairment losses ... | (357,115)                           | (215,028)             | (82,495)                                 | (34,543)   | (12,957)             | (702,138)  |
| Net carrying amount at March 31, 2018 .....        | ¥293,517                            | ¥125,565              | ¥ 90,455                                 | ¥ 11,573   | ¥ 41,067             | ¥ 562,177  |

(1) Disposals include other intangible assets owned by SMFL reclassified as “Assets held for sale” during the fiscal year ended March 31, 2018.

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 SMBC Group had ¥383 million and ¥317 million of contractual commitments to acquire intangible assets at March 31, 2018 and 2017, respectively.

The amounts of research and development expenditure recognized as expenses for the fiscal years ended March 31, 2018, 2017 and 2016 were ¥84 million, ¥89 million and ¥207 million, respectively, and they were included in “General and administrative expenses” in the consolidated income statement.

Other intangibles at March 31, 2018 and 2017 include leasehold rights, amounting to ¥5,436 million and ¥6,825 million, respectively, which are rights to use land for the purpose of owning the buildings. Since the SMBC 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, 2018 and 2017 consisted of the following:

|                                                                                     | At March 31,  |             |
|-------------------------------------------------------------------------------------|---------------|-------------|
|                                                                                     | 2018          | 2017        |
|                                                                                     | (In millions) |             |
| Prepaid expenses . . . . .                                                          | ¥ 49,300      | ¥ 72,594    |
| Accrued income . . . . .                                                            | 416,210       | 380,018     |
| Receivables from brokers, dealers and customers for securities transactions . . . . | 1,175,495     | 1,438,977   |
| Cash collateral provided for derivative and other financial transactions . . . . .  | 1,560,972     | 1,089,481   |
| Retirement benefit assets . . . . .                                                 | 316,455       | 257,744     |
| Security deposits . . . . .                                                         | 99,247        | 115,064     |
| Investment properties <sup>(1)(2)</sup> . . . . .                                   | 13,889        | 436,985     |
| Others . . . . .                                                                    | 412,340       | 530,861     |
| Total other assets . . . . .                                                        | ¥ 4,043,908   | ¥ 4,321,724 |

- (1) Investment properties are carried at cost less accumulated depreciation and accumulated impairment losses. Rental income from investment properties was ¥29,427 million, ¥25,322 million and ¥20,879 million for the fiscal years ended March 31, 2018, 2017 and 2016, respectively.
- (2) Investment properties decreased due to the exclusion of those owned by SMFL reclassified as assets held for sale during the fiscal year ended March 31, 2018.

## 16 DEPOSITS

Deposits at March 31, 2018 and 2017 consisted of the following:

|                                                | At March 31,  |              |
|------------------------------------------------|---------------|--------------|
|                                                | 2018          | 2017         |
|                                                | (In millions) |              |
| Non-interest-bearing demand deposits . . . . . | ¥ 21,611,514  | ¥ 19,853,552 |
| Interest-bearing demand deposits . . . . .     | 52,154,265    | 51,281,995   |
| Deposits at notice . . . . .                   | 10,355,664    | 10,330,269   |
| Time deposits . . . . .                        | 25,655,132    | 29,525,875   |
| Negotiable certificates of deposit . . . . .   | 11,220,285    | 11,880,938   |
| Others <sup>(1)</sup> . . . . .                | 7,464,667     | 7,422,661    |
| Total deposits . . . . .                       | ¥128,461,527  | ¥130,295,290 |

- (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, 2018 and 2017 consisted of the following:

|                                           | At March 31,  |             |
|-------------------------------------------|---------------|-------------|
|                                           | 2018          | 2017        |
|                                           | (In millions) |             |
| Debt instruments “short position” .....   | ¥ 2,008,711   | ¥ 2,038,330 |
| Equity instruments “short position” ..... | 135,188       | 33,254      |
| Total trading liabilities .....           | ¥ 2,143,899   | ¥ 2,071,584 |

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, 2018 and 2017 consisted of the following:

|                                                                          |               | At March 31,  |             |
|--------------------------------------------------------------------------|---------------|---------------|-------------|
|                                                                          | Interest rate | 2018          | 2017        |
|                                                                          |               | (In millions) |             |
| <b>SMFG:</b>                                                             |               |               |             |
| Long-term borrowings:                                                    |               |               |             |
| Unsubordinated                                                           |               |               |             |
| Fixed rate borrowing, payable in United States dollars, due 2022-2031    | 2.89%-3.87%   | ¥ 31,875      | ¥ 33,657    |
| Fixed rate borrowing, payable in Australian dollars, due 2027            | 3.73%         | 8,165         | —           |
| Floating rate borrowing, payable in United States dollars, due 2026-2028 | 2.31%-3.76%   | 110,181       | 50,149      |
| Subordinated                                                             |               |               |             |
| Fixed rate borrowing, payable in Japanese yen, due 2024-2031             | 0.56%-1.27%   | 49,000        | 49,000      |
| Total SMFG                                                               |               | 199,221       | 132,806     |
| <b>SMBC:</b>                                                             |               |               |             |
| Short-term borrowings                                                    | 0.00%-2.18%   | 3,521,478     | 6,640,069   |
| Long-term borrowings:                                                    |               |               |             |
| Unsubordinated                                                           |               |               |             |
| Fixed rate borrowing, payable in Japanese yen, due 2017-2028             | 0.00%-6.10%   | 3,126,970     | 4,351       |
| Fixed rate borrowing, payable in United States dollars, due 2017-2025    | 0.00%-4.17%   | 42,666        | 45,387      |
| Fixed rate borrowing, payable in euros, due 2017-2045                    | 0.00%-3.50%   | 122,023       | 101,492     |
| Floating rate borrowing, payable in Japanese yen, due 2018-2037          | (0.18%)-0.02% | 59,500        | 68,000      |
| Floating rate borrowing, payable in United States dollars, due 2017-2033 | 1.18%-3.45%   | 894,797       | 904,263     |
| Floating rate borrowing, payable in euros, due 2021-2022                 | 0.00%-0.06%   | 32,128        | 31,769      |
| Subordinated                                                             |               |               |             |
| Fixed rate borrowing, payable in Japanese yen, due 2018-2027             | 1.28%-2.25%   | 216,000       | 226,000     |
| Total SMBC                                                               |               | 8,015,562     | 8,021,331   |
| <b>Other subsidiaries:</b>                                               |               |               |             |
| Short-term borrowings                                                    | 0.09%-7.91%   | 421,662       | 906,427     |
| Long-term borrowings:                                                    |               |               |             |
| Unsubordinated                                                           |               |               |             |
| Fixed rate borrowing, payable in Japanese yen, due 2017-2042             | 0.00%-2.67%   | 227,231       | 617,358     |
| Fixed rate borrowing, payable in United States dollars, due 2017-2044    | 0.81%-5.40%   | 197,806       | 216,213     |
| Fixed rate borrowing, payable in Chinese yuan, due 2017-2021             | 2.40%-6.15%   | —             | 24,348      |
| Fixed rate borrowing, payable in Thai baht, due 2018-2021                | 1.85%-4.03%   | —             | 12,724      |
| Floating rate borrowing, payable in Japanese yen, due 2017-2042          | 0.04%-1.92%   | 267,598       | 431,141     |
| Floating rate borrowing, payable in United States dollars, due 2017-2027 | 1.00%-3.86%   | 21,610        | 498,860     |
| Floating rate borrowing, payable in euros, due 2020                      | 1.00%         | 52,403        | 47,952      |
| Floating rate borrowing, payable in Great Britain pound, due 2042-2043   | 1.51%-8.49%   | 24,627        | 20,190      |
| Other fixed or floating rate borrowing, due 2017-2043                    | 0.58%-11.79%  | 10,873        | 30,728      |
| Subordinated                                                             |               |               |             |
| Fixed rate borrowing, payable in Japanese yen, due 2021                  | 1.35%         | —             | 5,200       |
| Floating rate borrowing, payable in Japanese yen, due 2025               | 1.95%         | —             | 4,000       |
| Total other subsidiaries                                                 |               | 1,223,810     | 2,815,141   |
| <b>Liabilities associated with securitization transactions:</b>          |               |               |             |
| Fixed rate borrowing, payable in Japanese yen, due 2021-2049             | 0.09%-2.70%   | 1,152,826     | 1,077,539   |
| Floating rate borrowing, payable in Japanese yen, due 2017-2027          | 0.16%-1.66%   | 47,533        | 85,421      |
| Floating rate borrowing, payable in United States dollars, due 2019-2020 | 1.86%-3.01%   | 4,363         | 6,781       |
| Total liabilities associated with securitization transactions            |               | 1,204,722     | 1,169,741   |
| <b>Lease obligations</b>                                                 | —             | 9,166         | 106,924     |
| Total borrowings                                                         |               | ¥10,652,481   | ¥12,245,943 |

The interest rates shown in the above table are the contractual rates in effect at March 31, 2018 and 2017, 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, 2018 and 2017 consisted of the following:

|                                                                   |               | At March 31,  |             |
|-------------------------------------------------------------------|---------------|---------------|-------------|
|                                                                   | Interest rate | 2018          | 2017        |
|                                                                   |               | (In millions) |             |
| SMFG:                                                             |               |               |             |
| Bonds:                                                            |               |               |             |
| Bonds, payable in United States dollars,<br>due 2021-2048         | 1.99%-4.30%   | ¥ 2,583,513   | ¥ 1,639,109 |
| Bonds, payable in euros,<br>due 2022-2033                         | 0.12%-1.72%   | 509,987       | 239,081     |
| Bonds, payable in Australian dollars,<br>due 2022-2028            | 3.07%-4.13%   | 179,367       | 93,691      |
| Subordinated bonds:                                               |               |               |             |
| Subordinated bonds, payable in Japanese yen,<br>due 2024-2030     | 0.30%-1.33%   | 757,999       | 653,778     |
| Subordinated bonds, payable in United States dollars,<br>due 2024 | 4.44%         | 185,426       | 195,697     |
| Total SMFG                                                        |               | 4,216,292     | 2,821,356   |
| SMBC:                                                             |               |               |             |
| Commercial paper                                                  | (0.50%)-2.26% | 1,521,437     | 1,389,908   |
| Bonds:                                                            |               |               |             |
| Bonds, payable in Japanese yen,<br>due 2017-2019                  | 0.25%-0.33%   | 99,000        | 156,182     |
| Bonds, payable in United States dollars,<br>due 2017-2045         | 1.21%-4.30%   | 2,072,295     | 2,404,015   |
| Bonds, payable in euros,<br>due 2017-2023                         | 0.00%-2.75%   | 260,236       | 417,767     |
| Bonds, payable in Australian dollars,<br>due 2017-2025            | 2.97%-4.13%   | 63,572        | 77,270      |
| Bonds, payable in Hong Kong dollars,<br>due 2020-2025             | 2.09%-2.92%   | 32,009        | 34,136      |
| Bonds, payable in Thai baht,<br>due 2019-2020                     | 2.00%-2.09%   | 25,575        | 11,410      |
| Subordinated bonds:                                               |               |               |             |
| Subordinated bonds, payable in Japanese yen,<br>due 2017-2026     | 0.87%-2.80%   | 385,522       | 565,599     |
| Subordinated bonds, payable in United States dollars,<br>due 2022 | 4.85%         | 158,912       | 167,724     |
| Subordinated bonds, payable in euros,<br>due 2020                 | 4.00%         | 97,648        | 89,227      |
| Total SMBC                                                        |               | 4,716,206     | 5,313,238   |
| Other subsidiaries:                                               |               |               |             |
| Commercial paper                                                  | 0.00%-2.42%   | 946,208       | 2,128,438   |
| Bonds:                                                            |               |               |             |
| Bonds, payable in Japanese yen,<br>due 2017-2048                  | 0.01%-21.00%  | 616,267       | 788,633     |
| Bonds, payable in United States dollars,<br>due 2017-2037         | 0.01%-8.00%   | 24,599        | 68,616      |
| Bonds, payable in Indonesian rupiah,<br>due 2018                  | 9.85%         | 19,081        | 8,688       |
| Bonds, payable in Australian dollars,<br>due 2019-2031            | 0.01%-3.00%   | 1,896         | 1,654       |
| Bonds, payable in Turkish lira,<br>due 2019-2023                  | 0.01%-9.00%   | 3,568         | —           |
| Subordinated bonds:                                               |               |               |             |
| Subordinated bonds, payable in Japanese yen,<br>due 2019-2028     | 2.31%-4.15%   | 25,000        | 35,000      |
| Total other subsidiaries                                          |               | 1,636,619     | 3,031,029   |
| Total debt securities in issue                                    |               | ¥10,569,117   | ¥11,165,623 |

Interest rates represent the contractual interest rates that were applied at March 31, 2018 and 2017, and thus do not represent the actual effective interest rates.

The following table presents the movement in Subordinated bonds for the fiscal year ended March 31, 2018.

|                                                    | <b>Subordinated<br/>bonds</b> |
|----------------------------------------------------|-------------------------------|
|                                                    | <b>(In millions)</b>          |
| Balance at March 31, 2017 <sup>(1)</sup> .....     | ¥ 1,707,025                   |
| Cash flows:                                        |                               |
| Proceeds from issuance of subordinated bonds ..... | 104,866                       |
| Redemption of subordinated bonds .....             | (180,034)                     |
| Non-cash changes:                                  |                               |
| Foreign exchange translations .....                | (11,138)                      |
| Others <sup>(2)</sup> .....                        | (10,212)                      |
| Balance at March 31, 2018 <sup>(1)</sup> .....     | ¥ 1,610,507                   |

(1) The balances are comprised of subordinated bonds issued by SMFG, SMBC and other subsidiaries.

(2) Others mainly include changes arising from losing control of SMFG's subsidiaries for the fiscal year ended March 31, 2018.

## 20 PROVISIONS

The following table presents movements by class of provisions for the fiscal years ended March 31, 2018 and 2017.

|                                                                         | <b>Provision for<br/>interest repayment</b> | <b>Other provisions</b> | <b>Total</b> |
|-------------------------------------------------------------------------|---------------------------------------------|-------------------------|--------------|
|                                                                         |                                             | <b>(In millions)</b>    |              |
| Balance at April 1, 2016 .....                                          | ¥ 229,422                                   | ¥ 32,979                | ¥ 262,401    |
| 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<br>discount rate ..... | (122)                                       | 214                     | 92           |
| Acquisition of subsidiaries and businesses .....                        | —                                           | 381                     | 381          |
| Others .....                                                            | —                                           | (12)                    | (12)         |
| Balance at March 31, 2017 .....                                         | 157,333                                     | 37,367                  | 194,700      |
| Additional provisions .....                                             | 50,500                                      | 28,537                  | 79,037       |
| Amounts used .....                                                      | (61,961)                                    | (14,902)                | (76,863)     |
| Unused amounts reversed .....                                           | (479)                                       | (3,247)                 | (3,726)      |
| Amortization of discount and effect of change in<br>discount rate ..... | (142)                                       | 209                     | 67           |
| Others .....                                                            | (72)                                        | (4,876)                 | (4,948)      |
| Balance at March 31, 2018 .....                                         | ¥ 145,179                                   | ¥ 43,088                | ¥ 188,267    |

### 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 SMBC Group was 94 thousand, 127 thousand and 137 thousand for the fiscal years ended March 31, 2018, 2017 and 2016, 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, 2018 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, 2018 and 2017.

## 21 OTHER LIABILITIES

Other liabilities at March 31, 2018 and 2017 consisted of the following:

|                                                                        | At March 31,      |                   |
|------------------------------------------------------------------------|-------------------|-------------------|
|                                                                        | 2018              | 2017              |
|                                                                        | (In millions)     |                   |
| Accrued expenses                                                       | ¥ 313,226         | ¥ 291,871         |
| Unearned income                                                        | 133,478           | 168,952           |
| Financial guarantees and other credit-related contingent liabilities   | 119,170           | 119,913           |
| Due to trust account                                                   | 1,328,271         | 1,180,976         |
| Payables to brokers, dealers and customers for securities transactions | 1,737,919         | 2,618,322         |
| Payables related to credit card services                               | 640,487           | 563,268           |
| Obligations from factoring transactions                                | 566,284           | 487,209           |
| Retirement benefit liabilities                                         | 36,888            | 64,972            |
| Guarantee deposits received                                            | 701,177           | 563,739           |
| Others                                                                 | 1,305,840         | 1,401,879         |
| Total other liabilities                                                | <u>¥6,882,740</u> | <u>¥7,461,101</u> |

## 22 DEFERRED INCOME TAX

The changes of net deferred tax assets and liabilities for the fiscal years ended March 31, 2018 and 2017 were as follows:

|                                                                | For the fiscal year ended<br>March 31, |            |
|----------------------------------------------------------------|----------------------------------------|------------|
|                                                                | 2018                                   | 2017       |
|                                                                | (In millions)                          |            |
| At beginning of period                                         | ¥(238,240)                             | ¥(220,574) |
| Deferred tax benefit (expense)                                 | (1,036)                                | 120,468    |
| Deferred tax relating to other comprehensive income:           |                                        |            |
| Remeasurements of defined benefit plans reserve                | (22,492)                               | (2,315)    |
| Available-for-sale financial assets reserve                    | (99,383)                               | (82,619)   |
| Exchange differences on translating foreign operations reserve | 3,137                                  | 2,545      |
| Acquisition and disposal of subsidiaries and businesses        | (17,196)                               | (6,259)    |
| Reclassification to assets held for sale <sup>(1)</sup>        | (5,540)                                | —          |
| Exchange differences and others                                | 2,445                                  | (49,486)   |
| At end of period                                               | ¥(378,305)                             | ¥(238,240) |

- (1) The SMBC Group reclassified net deferred tax assets of ¥5,540 million allocated to Sumitomo Mitsui Finance and Leasing Company, Limited and its subsidiaries to assets held for sale at March 31, 2018. For additional information, refer to Note 50 “Assets and Disposal Groups Held for Sale.”

The deferred tax assets and liabilities at March 31, 2018 and 2017 were attributable to the following items:

|                                             | At March 31,  |            |
|---------------------------------------------|---------------|------------|
|                                             | 2018          | 2017       |
|                                             | (In millions) |            |
| <b>Deferred tax assets:</b>                 |               |            |
| Loans and advances                          | ¥206,928      | ¥ 231,971  |
| Derivative financial instruments            | 59,530        | 55,989     |
| Provision for interest repayment            | 36,779        | 40,638     |
| Tax losses carried forward                  | 24,082        | 98,788     |
| Retirement benefits                         | 9,204         | 21,772     |
| Investment securities                       | 1,243         | 981        |
| Other deductible temporary differences      | 152,891       | 161,246    |
| Total deferred tax assets                   | 490,657       | 611,385    |
| <b>Deferred tax liabilities:</b>            |               |            |
| Investment securities                       | 680,425       | 571,489    |
| Goodwill and intangible assets              | 81,076        | 111,145    |
| Property, plant and equipment               | 28,786        | 91,703     |
| Retirement benefits                         | 19,484        | 3,485      |
| Lease transactions                          | 10,866        | 16,026     |
| Other taxable temporary differences         | 48,325        | 55,777     |
| Total deferred tax liabilities              | 868,962       | 849,625    |
| Net deferred tax liabilities <sup>(1)</sup> | ¥(378,305)    | ¥(238,240) |

- (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, 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 the Company was reduced from 32.3% to 30.9% during the two fiscal years beginning April 1, 2016 through March 31, 2018 and from 30.9% to 30.6% for the fiscal years beginning April 1, 2018. The SMBC 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, the Company 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, the Company and its wholly owned domestic subsidiaries started to recognize 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.

The deferred tax assets of the Company and its wholly owned domestic subsidiaries, which adopted the consolidated corporate-tax system, consisted mainly of those for loans and advances. 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. The Company and its wholly owned domestic subsidiaries consider that most of the deductible temporary differences 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 the Company’s other subsidiaries, deferred tax assets relating to deductible temporary differences are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. No deferred tax assets were recognized in certain the Company’s 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, 2018 and 2017 for which no deferred tax assets were recognized.

|                                                                                                | At March 31,      |                   |
|------------------------------------------------------------------------------------------------|-------------------|-------------------|
|                                                                                                | 2018              | 2017              |
|                                                                                                | (In millions)     |                   |
| Deductible temporary differences . . . . .                                                     | ¥ 445,649         | ¥ 436,481         |
| Tax losses carried forward which will expire in 1 year . . . . .                               | 224,298           | 112,010           |
| 2 years . . . . .                                                                              | 209,109           | 251,300           |
| 3 years . . . . .                                                                              | 252,812           | 219,834           |
| 4 years . . . . .                                                                              | 70,222            | 259,636           |
| 5 years . . . . .                                                                              | 140,879           | 78,055            |
| 6 years . . . . .                                                                              | 59,791            | 168,288           |
| 7 years . . . . .                                                                              | 44,575            | 75,171            |
| 8 years . . . . .                                                                              | 16,279            | 59,230            |
| 9 years and thereafter . . . . .                                                               | 59,734            | 19,390            |
| Total deductible temporary differences and tax losses carried forward <sup>(1)</sup> . . . . . | <u>¥1,523,348</u> | <u>¥1,679,395</u> |

- (1) Under the consolidated corporate-tax system, the Company 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 ¥421,319 million and ¥503,511 million at March 31, 2018 and 2017, respectively.

In addition to the above table, the SMBC Group does not recognize deferred tax assets for deductible temporary differences related to investments in subsidiaries, associates and joint ventures where the Company has no intention to reverse these differences in the foreseeable future. The amount of those deductible temporary differences was ¥818 billion and ¥810 billion at March 31, 2018 and 2017, respectively.

At March 31, 2018 and 2017, 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 ¥2,041 billion and ¥1,352 billion, respectively. The Company 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, 2018 and 2017 was attributable to the following temporary differences and tax losses carried forward:

|                                      | For the fiscal year ended<br>March 31, |          |
|--------------------------------------|----------------------------------------|----------|
|                                      | 2018                                   | 2017     |
|                                      | (In millions)                          |          |
| Investment securities                | ¥(34,881)                              | ¥ 26,999 |
| Derivative financial instruments     | 9,296                                  | 39,101   |
| Goodwill and intangible assets       | 7,809                                  | 2,201    |
| Loans and advances                   | 6,092                                  | (10,496) |
| Lease transactions                   | 5,223                                  | 2,389    |
| Provision for interest repayment     | (3,840)                                | 28,186   |
| Tax losses carried forward           | (3,448)                                | 66,378   |
| Retirement benefits                  | (2,604)                                | 3,139    |
| Property, plant and equipment        | (1,137)                                | (45,285) |
| Other temporary differences—net      | 16,454                                 | 7,856    |
| Total deferred tax benefit (expense) | ¥ (1,036)                              | ¥120,468 |

## 23 RETIREMENT BENEFITS

### Defined Benefit Plans

SMBC and some of the Company'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 SMBC 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 SMBC Group are generally established and operated in the same manner as described above.

#### ***Lump-sum severance indemnity plans***

SMBC and some of the Company'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 the Company'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 SMBC 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 SMBC Group. Therefore, they are not available to the SMBC Group's creditors even in bankruptcy and cannot be returned to the SMBC Group, unless either the remaining assets are sufficient to meet all the related obligations or the entities (funds) reimburse to the SMBC Group the retirement benefits which are already paid by the SMBC 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, 2018 and 2017 were determined as follows:

|                                                                         | At March 31,  |             |
|-------------------------------------------------------------------------|---------------|-------------|
|                                                                         | 2018          | 2017        |
|                                                                         | (In millions) |             |
| Present value of unfunded obligations                                   | ¥ (30,082)    | ¥ (52,494)  |
| Present value of funded obligations                                     | (1,143,589)   | (1,187,290) |
| Fair value of plan assets                                               | 1,453,238     | 1,432,556   |
| Net retirement benefit assets (liabilities)                             | ¥ 279,567     | ¥ 192,772   |
| Of which retirement benefit liabilities included in “Other liabilities” | ¥ (36,888)    | ¥ (64,972)  |
| Of which retirement benefit assets included in “Other assets”           | ¥ 316,455     | ¥ 257,744   |

The movements in the defined benefit obligations for the fiscal years ended March 31, 2018 and 2017 were as follows:

|                                                | For the fiscal year ended<br>March 31, |                       |
|------------------------------------------------|----------------------------------------|-----------------------|
|                                                | 2018                                   | 2017                  |
|                                                | (In millions)                          |                       |
| At beginning of period                         | ¥ 1,239,784                            | ¥ 1,177,090           |
| Current service cost                           | 40,387                                 | 40,030                |
| Interest cost                                  | 8,637                                  | 6,970                 |
| Actuarial losses—demographic assumptions       | 15,485                                 | 77,112 <sup>(1)</sup> |
| Actuarial losses (gains)—financial assumptions | 5,896                                  | (17,385)              |
| Actuarial losses—experience                    | 2,519                                  | 3,980                 |
| Benefits paid                                  | (44,433)                               | (42,387)              |
| Lump-sum payments                              | (24,109)                               | (11,365)              |
| Past service cost                              | (44)                                   | (3)                   |
| Acquisition of subsidiaries and businesses     | —                                      | 7,096                 |
| Settlements                                    | —                                      | (621)                 |
| Others <sup>(2)</sup>                          | (70,451)                               | (733)                 |
| At end of period                               | ¥ 1,173,671                            | ¥ 1,239,784           |

(1) Includes an increase due to the assumption refinement of estimate on mortality rates.

(2) Others mainly include the exclusion of the defined benefit obligations related to KUBC and The Minato Bank, both of which had been the Company’s subsidiaries but became its equity-method associates, and the exclusion of the defined benefit obligations related to SMFL which were reclassified as assets held for sale during the fiscal year ended March 31, 2018.

The movements in the fair value of plan assets for the fiscal years ended March 31, 2018 and 2017 were as follows:

|                                                 | For the fiscal year ended<br>March 31, |            |
|-------------------------------------------------|----------------------------------------|------------|
|                                                 | 2018                                   | 2017       |
|                                                 | (In millions)                          |            |
| At beginning of period                          | ¥1,432,556                             | ¥1,354,202 |
| Interest income                                 | 10,090                                 | 8,123      |
| Return on plan assets excluding interest income | 97,433                                 | 71,841     |
| Contributions by employer                       | 19,208                                 | 44,535     |
| Benefits paid                                   | (44,433)                               | (42,387)   |
| Settlements                                     | —                                      | (696)      |
| Others <sup>(1)</sup>                           | (61,616)                               | (3,062)    |
| At end of period                                | ¥1,453,238                             | ¥1,432,556 |

(1) Others mainly include the exclusion of the fair value of plan assets related to KUBC and The Minato Bank, both of which had been the Company's subsidiaries but became its equity-method associates, and the exclusion of the fair value of plan assets related to SMFL which were reclassified as assets held for sale during the fiscal year ended March 31, 2018.

The amounts recognized in "General and administrative expenses" in the consolidated income statement for the fiscal years ended March 31, 2018, 2017 and 2016 were as follows:

|                      | For the fiscal year ended March 31, |          |          |
|----------------------|-------------------------------------|----------|----------|
|                      | 2018                                | 2017     | 2016     |
|                      | (In millions)                       |          |          |
| Current service cost | ¥ 40,387                            | ¥ 40,030 | ¥ 35,032 |
| Net interest cost    | (1,453)                             | (1,153)  | (3,553)  |
| Past service cost    | (44)                                | (3)      | (32)     |
| Total                | ¥ 38,890                            | ¥ 38,874 | ¥ 31,447 |

The plan assets at March 31, 2018 and 2017 were composed as follows:

|                                                           | At March 31,                   |          |            |                                |          |            |
|-----------------------------------------------------------|--------------------------------|----------|------------|--------------------------------|----------|------------|
|                                                           | 2018                           |          |            | 2017                           |          |            |
|                                                           | Quoted in<br>active<br>markets | Other    | Total      | Quoted in<br>active<br>markets | Other    | Total      |
|                                                           | (In millions)                  |          |            |                                |          |            |
| Plan assets retained in the pension funds:                |                                |          |            |                                |          |            |
| Equity instruments                                        | ¥286,542                       | ¥148,439 | ¥ 434,981  | ¥269,706                       | ¥135,884 | ¥ 405,590  |
| Debt instruments                                          | 36,290                         | 205,320  | 241,610    | 107,075                        | 224,509  | 331,584    |
| General account of life insurance<br>companies            | 356                            | 45,089   | 45,445     | 758                            | 66,892   | 67,650     |
| Other investments and short-term<br>assets                | 45,252                         | 170,476  | 215,728    | 21,970                         | 105,490  | 127,460    |
| Plan assets retained in the retirement benefit<br>trusts: |                                |          |            |                                |          |            |
| Japanese equity instruments                               | 468,319                        | 1,542    | 469,861    | 456,747                        | 1,400    | 458,147    |
| Other short-term assets                                   | 36,340                         | 9,273    | 45,613     | 32,276                         | 9,849    | 42,125     |
| Total                                                     | ¥873,099                       | ¥580,139 | ¥1,453,238 | ¥888,532                       | ¥544,024 | ¥1,432,556 |

The assets in the pension funds included common stocks issued by the SMBC Group at March 31, 2018 and 2017. 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 SMBC Group are invested in Japanese equity and debt instruments. Accordingly, the SMBC Group may be exposed to market risk arising from the domestic markets.

The SMBC Group retained the voting rights of some of these equity instruments with fair values of ¥457,217 million and ¥418,221 million (31.5% and 29.2% of the total fair values of plan assets) at March 31, 2018 and 2017, respectively.

The principal actuarial assumptions used at March 31, 2018, 2017 and 2016 were as follows:

|                      | At March 31, |      |      |
|----------------------|--------------|------|------|
|                      | 2018         | 2017 | 2016 |
| Discount rates ..... | 0.7%         | 0.7% | 0.6% |

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, 2018, 2017 and 2016, the current average remaining life expectancy of an individual retiring at age 60 was 23 years for males and 28 years for females.

The sensitivity analyses of the effect of changes in key assumptions on the defined benefit obligations at March 31, 2018 and 2017 were as follows:

|                                    |   | At March 31,        |                     |
|------------------------------------|---|---------------------|---------------------|
|                                    |   | 2018                | 2017                |
|                                    |   | Increase/(decrease) | Increase/(decrease) |
|                                    |   | (In millions)       |                     |
| Discount rates:                    |   |                     |                     |
| Increase by 50 bps                 | ¥ | (73,146)            | ¥ (71,373)          |
| Decrease by 50 bps                 |   | 83,014              | 80,864              |
| Average life expectancy at age 60: |   |                     |                     |
| Increase of one year               | ¥ | 38,291              | ¥ 37,166            |

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, 2018, 2017 and 2016 were as follows:

|                                          | At March 31, |      |      |
|------------------------------------------|--------------|------|------|
|                                          | 2018         | 2017 | 2016 |
|                                          | (Years)      |      |      |
| Lump-sum severance indemnity plans ..... | 12.8         | 12.9 | 12.8 |
| Defined benefit pension plans .....      | 18.9         | 18.2 | 17.6 |

### ***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, 2019 are ¥21,269 million.

## Defined Contribution Plans

Some of the Company's subsidiaries provide defined contribution plans. The amounts recognized as expenses for the defined contribution plans were ¥10,769 million, ¥9,621 million and ¥7,258 million for the fiscal years ended March 31, 2018, 2017 and 2016, 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 ¥42,694 million, ¥43,650 million and ¥40,173 million for the fiscal years ended March 31, 2018, 2017 and 2016, 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 the Company or its subsidiaries during the fiscal years ended March 31, 2018, 2017 and 2016 were as follows:

|                                  | For the fiscal year ended March 31, |                  |                      |                             |                      |                   |
|----------------------------------|-------------------------------------|------------------|----------------------|-----------------------------|----------------------|-------------------|
|                                  | 2018                                |                  | 2017                 |                             | 2016                 |                   |
|                                  | Outstanding                         | In treasury      | Outstanding          | In treasury                 | Outstanding          | In treasury       |
| At beginning of period . . . . . | 1,414,055,625                       | 4,028,883        | 1,414,055,625        | 46,830,882                  | 1,414,055,625        | 46,814,201        |
| Net change . . . . .             | 387,765                             | (143,915)        | —                    | (42,801,999) <sup>(1)</sup> | —                    | 16,681            |
| At end of period . . .           | <u>1,414,443,390</u>                | <u>3,884,968</u> | <u>1,414,055,625</u> | <u>4,028,883</u>            | <u>1,414,055,625</u> | <u>46,830,882</u> |

(1) Includes a decrease of 42,820,864 shares through the sale of the Company's shares held by SMBC.

The total number of authorized shares of common stock was 3,000 million at March 31, 2018 and 2017 with no stated value. All issued shares are fully paid. The details of the stock options and the restricted shares outstanding are described in Note 39 "Share-Based Payment."

On May 14, 2018, the Company's board of directors resolved to repurchase shares of its common stock and cancel all the repurchased shares. The resolution authorized the repurchase of up to the lesser of (i) an aggregate of 20,000,000 shares of its common stock and (ii) an aggregate of ¥70 billion between May 15, 2018 and July 31, 2018. On June 19, 2018, the Company completed the repurchase, acquiring 15,368,300 shares of its common stock for ¥70 billion in aggregate. The cancellation of all the repurchased shares is scheduled on August 20, 2018.

### Preferred Stock

The following table shows the number of shares of preferred stock at March 31, 2018 and 2017.

|                                  | At March 31, 2018 |        | At March 31, 2017 |        |
|----------------------------------|-------------------|--------|-------------------|--------|
|                                  | 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, 2018, 2017 and 2016.

## 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 the Company that can be paid out as dividends is subject to restrictions under the Companies Act. These amounts are calculated based on the Company’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 the Company can pay out as a dividend was ¥1,623 billion at March 31, 2018.

Other than the restriction by the Companies Act, the Company 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, the Company 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 the Company is a holding company, its earnings rely mostly on dividend income from SMBC, and the Company’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 the Company’s.

## 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, 2018, 2017 and 2016 were as follows:

|                                                                                         | For the fiscal year ended March 31, |          |           |
|-----------------------------------------------------------------------------------------|-------------------------------------|----------|-----------|
|                                                                                         | 2018                                | 2017     | 2016      |
|                                                                                         | (In millions)                       |          |           |
| At beginning of period . . . . .                                                        | ¥ 22,774                            | ¥ 18,985 | ¥ 120,316 |
| Gains (losses) arising during the period, before tax . . . . .                          | 73,662                              | 8,134    | (154,273) |
| Income tax (expense) benefit for changes arising during the period . . . .              | (22,492)                            | (2,315)  | 48,550    |
| Amount attributable to non-controlling interests . . . . .                              | 45                                  | (1,568)  | 3,834     |
| Share of other comprehensive income (loss) of associates and joint ventures . . . . .   | 58                                  | (462)    | 558       |
| Transfer of (gains) losses on remeasurements, net of tax to retained earnings . . . . . | 2,055                               | —        | —         |
| At end of period . . . . .                                                              | ¥ 76,102                            | ¥ 22,774 | ¥ 18,985  |

### *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, 2018, 2017 and 2016 were as follows:

|                                                                                       | For the fiscal year ended March 31, |            |            |
|---------------------------------------------------------------------------------------|-------------------------------------|------------|------------|
|                                                                                       | 2018                                | 2017       | 2016       |
|                                                                                       | (In millions)                       |            |            |
| At beginning of period                                                                | ¥1,929,894                          | ¥1,756,634 | ¥2,234,636 |
| Gains (losses) arising during the period, before tax                                  | 582,435                             | 371,438    | (551,572)  |
| Income tax (expense) benefit for changes arising during the period                    | (184,128)                           | (116,277)  | 217,723    |
| Reclassification adjustments for (gains) losses included in net profit,<br>before tax | (275,038)                           | (109,990)  | (217,529)  |
| Income tax benefit for reclassification adjustments                                   | 84,745                              | 33,658     | 71,876     |
| Amount attributable to non-controlling interests                                      | (15,653)                            | (3,971)    | 2,251      |
| Share of other comprehensive income (loss) of associates and joint<br>ventures        | 5                                   | (1,598)    | (751)      |
| At end of period                                                                      | ¥2,122,260                          | ¥1,929,894 | ¥1,756,634 |

#### *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 SMBC Group's presentation currency, Japanese yen.

The movements of exchange differences on translating the foreign operations reserve for the fiscal years ended March 31, 2018, 2017 and 2016 were as follows:

|                                                                                       | For the fiscal year ended March 31, |           |           |
|---------------------------------------------------------------------------------------|-------------------------------------|-----------|-----------|
|                                                                                       | 2018                                | 2017      | 2016      |
|                                                                                       | (In millions)                       |           |           |
| At beginning of period                                                                | ¥ 181,374                           | ¥ 216,336 | ¥ 404,132 |
| Gains (losses) arising during the period, before tax                                  | (75,409)                            | (24,063)  | (219,904) |
| Income tax (expense) benefit for changes arising during the period                    | 3,152                               | 2,544     | 19,027    |
| Reclassification adjustments for (gains) losses included in net profit,<br>before tax | 49                                  | (4)       | 8         |
| Income tax (expense) benefit for reclassification adjustments                         | (15)                                | 1         | (3)       |
| Amount attributable to non-controlling interests                                      | 9,014                               | 6,102     | 26,687    |
| Share of other comprehensive income (loss) of associates and joint<br>ventures        | 7,822                               | (19,542)  | (13,611)  |
| At end of period                                                                      | ¥ 125,987                           | ¥ 181,374 | ¥ 216,336 |

## **25 NON-CONTROLLING INTERESTS AND EQUITY ATTRIBUTABLE TO OTHER EQUITY INSTRUMENTS HOLDERS**

### **Non-controlling interests**

Non-controlling interests at March 31, 2018 and 2017 consisted of the following:

|                                             | At March 31,  |            |
|---------------------------------------------|---------------|------------|
|                                             | 2018          | 2017       |
|                                             | (In millions) |            |
| Preferred securities issued by subsidiaries | ¥ 730,153     | ¥ 870,979  |
| Others                                      | 502,827       | 634,022    |
| Total non-controlling interests             | ¥1,232,980    | ¥1,505,001 |

### ***Preferred securities issued by subsidiaries***

Preferred securities issued by subsidiaries consisted of the following:

|                                                                                                                       | Redemption at<br>the option of<br>Issuer <sup>(1)</sup> | At March 31, |           |
|-----------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|--------------|-----------|
|                                                                                                                       |                                                         | 2018         | 2017      |
| (In millions)                                                                                                         |                                                         |              |           |
| SMFG Preferred Capital JPY 1 Limited<br>(non-cumulative perpetual preferred securities) . . . . .                     | January 2018                                            | ¥ —          | ¥ 135,000 |
| SMFG Preferred Capital USD 3 Limited<br>(non-cumulative step-up perpetual preferred securities) . . . . .             | July 2018                                               | 143,438      | 151,456   |
| SMFG Preferred Capital GBP 2 Limited<br>(non-cumulative step-up perpetual preferred securities) . . . . .             | January 2029                                            | 37,215       | 35,023    |
| SMFG Preferred Capital JPY 2 Limited<br>Series A (non-cumulative step-up perpetual preferred<br>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<br>Series A (non-cumulative step-up perpetual preferred<br>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 . . . . .                                                                 |                                                         | ¥ 730,153    | ¥ 870,979 |

(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 SMBC Group’s subsidiaries not attributable, directly or indirectly, to the SMBC Group. They were not considered individually material to the SMBC Group at March 31, 2018 and 2017.

### **Equity attributable to other equity instruments holders**

Equity attributable to other equity instruments holders at March 31, 2018 and 2017 consisted of the following:

|                                                                         | At March 31, |           |
|-------------------------------------------------------------------------|--------------|-----------|
|                                                                         | 2018         | 2017      |
| (In millions)                                                           |              |           |
| Perpetual subordinated bonds . . . . .                                  | ¥ 599,522    | ¥ 449,709 |
| Total equity attributable to other equity instruments holders . . . . . | ¥ 599,522    | ¥ 449,709 |

SMFG issued perpetual subordinated bonds, which 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, 2018, 2017 and 2016 consisted of the following:

|                                                                                       | For the fiscal year ended March 31, |                   |                   |
|---------------------------------------------------------------------------------------|-------------------------------------|-------------------|-------------------|
|                                                                                       | 2018                                | 2017              | 2016              |
|                                                                                       | (In millions)                       |                   |                   |
| <b>Interest income from:</b>                                                          |                                     |                   |                   |
| Deposits with banks . . . . .                                                         | ¥ 78,217                            | ¥ 45,770          | ¥ 40,472          |
| Call loans and bills bought . . . . .                                                 | 19,362                              | 12,065            | 21,828            |
| Reverse repurchase agreements and cash collateral on securities<br>borrowed . . . . . | 40,021                              | 29,601            | 22,011            |
| Investment securities . . . . .                                                       | 102,295                             | 87,348            | 84,912            |
| Loans and advances . . . . .                                                          | 1,904,175                           | 1,725,477         | 1,703,361         |
| Total interest income . . . . .                                                       | <u>2,144,070</u>                    | <u>1,900,261</u>  | <u>1,872,584</u>  |
| <b>Interest expense from:</b>                                                         |                                     |                   |                   |
| Deposits . . . . .                                                                    | 382,753                             | 249,028           | 202,312           |
| Call money and bills sold . . . . .                                                   | 8,763                               | 5,286             | 5,583             |
| Repurchase agreements and cash collateral on securities lent . . . . .                | 61,341                              | 20,623            | 15,105            |
| Borrowings . . . . .                                                                  | 89,196                              | 79,835            | 72,203            |
| Debt securities in issue . . . . .                                                    | 190,774                             | 146,937           | 135,172           |
| Others . . . . .                                                                      | 1,142                               | 629               | 726               |
| Total interest expense . . . . .                                                      | <u>733,969</u>                      | <u>502,338</u>    | <u>431,101</u>    |
| Net interest income . . . . .                                                         | <u>¥1,410,101</u>                   | <u>¥1,397,923</u> | <u>¥1,441,483</u> |

Interest income recorded on impaired financial assets was ¥18,886 million, ¥16,892 million and ¥20,545 million for the fiscal years ended March 31, 2018, 2017 and 2016, respectively.

## 27 NET FEE AND COMMISSION INCOME

Net fee and commission income for the fiscal years ended March 31, 2018, 2017 and 2016 consisted of the following:

|                                         | For the fiscal year ended March 31, |                  |                  |
|-----------------------------------------|-------------------------------------|------------------|------------------|
|                                         | 2018                                | 2017             | 2016             |
|                                         | (In millions)                       |                  |                  |
| <b>Fee and commission income from:</b>  |                                     |                  |                  |
| Loans .....                             | ¥ 120,998                           | ¥ 128,305        | ¥ 121,934        |
| Credit card business .....              | 289,509                             | 261,253          | 253,136          |
| Guarantees .....                        | 62,934                              | 58,221           | 55,618           |
| Securities-related business .....       | 147,016                             | 146,655          | 133,019          |
| Deposits .....                          | 16,169                              | 15,929           | 14,882           |
| Remittances and transfers .....         | 140,621                             | 138,029          | 133,110          |
| Safe deposits .....                     | 5,224                               | 5,414            | 5,511            |
| Trust fees .....                        | 3,854                               | 3,607            | 3,619            |
| Investment trusts .....                 | 154,419                             | 126,590          | 116,057          |
| Agency .....                            | 16,577                              | 16,753           | 16,432           |
| Others .....                            | 174,043                             | 165,656          | 178,362          |
| Total fee and commission income .....   | <u>1,131,364</u>                    | <u>1,066,412</u> | <u>1,031,680</u> |
| <b>Fee and commission expense from:</b> |                                     |                  |                  |
| Remittances and transfers .....         | 40,214                              | 39,419           | 38,358           |
| Guarantees .....                        | 3,750                               | 3,434            | 3,071            |
| Others .....                            | 134,903                             | 138,720          | 89,952           |
| Total fee and commission expense .....  | <u>178,867</u>                      | <u>181,573</u>   | <u>131,381</u>   |
| Net fee and commission income .....     | <u>¥ 952,497</u>                    | <u>¥ 884,839</u> | <u>¥ 900,299</u> |

## 28 NET TRADING INCOME

Net trading income for the fiscal years ended March 31, 2018, 2017 and 2016 consisted of the following:

|                                | For the fiscal year ended March 31, |                  |                  |
|--------------------------------|-------------------------------------|------------------|------------------|
|                                | 2018                                | 2017             | 2016             |
|                                | (In millions)                       |                  |                  |
| Interest rate .....            | ¥ 128,137                           | ¥ 79,650         | ¥ 240,763        |
| Foreign exchange .....         | 87,322                              | 51,143           | 204,349          |
| Equity .....                   | 48,047                              | 39,478           | 18,019           |
| Credit .....                   | 5,735                               | 13,063           | (2,641)          |
| Others .....                   | 1,223                               | 629              | 2,192            |
| Total net trading income ..... | <u>¥ 270,464</u>                    | <u>¥ 183,963</u> | <u>¥ 462,682</u> |

Net trading income includes income and losses from trading assets and liabilities, and derivative financial instruments.

## 29 NET INCOME (LOSS) FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Net income (loss) from financial assets at fair value through profit or loss for the fiscal years ended March 31, 2018, 2017 and 2016 consisted of the following:

|                                                                                             | For the fiscal year ended March 31, |               |          |
|---------------------------------------------------------------------------------------------|-------------------------------------|---------------|----------|
|                                                                                             | 2018                                | 2017          | 2016     |
|                                                                                             |                                     | (In millions) |          |
| Net income (loss) from debt instruments .....                                               | ¥ (1,775)                           | ¥ 428         | ¥ 11,311 |
| Net income from equity instruments .....                                                    | 1,108                               | 1,590         | 949      |
| Total net income (loss) from financial assets at fair value<br>through profit or loss ..... | ¥ (667)                             | ¥ 2,018       | ¥ 12,260 |

## 30 NET INVESTMENT INCOME

Net investment income for the fiscal years ended March 31, 2018, 2017 and 2016 consisted of the following:

|                                                    | For the fiscal year ended March 31, |               |           |
|----------------------------------------------------|-------------------------------------|---------------|-----------|
|                                                    | 2018                                | 2017          | 2016      |
|                                                    |                                     | (In millions) |           |
| Net gain from disposal of debt instruments .....   | ¥ 4,187                             | ¥ 39,484      | ¥ 71,641  |
| Net gain from disposal of equity instruments ..... | 281,036                             | 142,016       | 175,494   |
| Dividend income .....                              | 138,874                             | 123,827       | 128,094   |
| Total net investment income .....                  | ¥ 424,097                           | ¥ 305,327     | ¥ 375,229 |

## 31 OTHER INCOME

Other income for the fiscal years ended March 31, 2018, 2017 and 2016 consisted of the following:

|                                                                                          | For the fiscal year ended March 31, |               |           |
|------------------------------------------------------------------------------------------|-------------------------------------|---------------|-----------|
|                                                                                          | 2018                                | 2017          | 2016      |
|                                                                                          |                                     | (In millions) |           |
| Income from operating leases .....                                                       | ¥ 276,850                           | ¥ 250,460     | ¥ 206,561 |
| Income related to disposal of assets leased .....                                        | 322,673                             | 152,564       | 155,280   |
| Income related to IT solution services .....                                             | 29,172                              | 37,678        | 33,991    |
| Gains on disposal of property, plant and equipment, and other<br>intangible assets ..... | 852                                 | 937           | 3,714     |
| Reversal of impairment losses of investments in associates and joint<br>ventures .....   | 8,123                               | —             | 4,847     |
| Gains on step acquisition of subsidiaries .....                                          | —                                   | 20,344        | 118       |
| Gains on step acquisition of associates and joint ventures .....                         | —                                   | —             | 1,714     |
| Others .....                                                                             | 118,185                             | 111,842       | 90,048    |
| Total other income .....                                                                 | ¥ 755,855                           | ¥ 573,825     | ¥ 496,273 |

### 32 IMPAIRMENT CHARGES ON FINANCIAL ASSETS

Impairment charges on financial assets for the fiscal years ended March 31, 2018, 2017 and 2016 consisted of the following:

|                                                        | For the fiscal year ended March 31, |               |           |
|--------------------------------------------------------|-------------------------------------|---------------|-----------|
|                                                        | 2018                                | 2017          | 2016      |
|                                                        |                                     | (In millions) |           |
| Loans and advances <sup>(1)</sup> . . . . .            | ¥ 126,623                           | ¥ 141,457     | ¥ 118,750 |
| Available-for-sale financial assets . . . . .          | 10,185                              | 71,510        | 29,606    |
| Total impairment charges on financial assets . . . . . | ¥ 136,808                           | ¥ 212,967     | ¥ 148,356 |

(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, 2018, 2017 and 2016 consisted of the following:

|                                                     | For the fiscal year ended March 31, |               |            |
|-----------------------------------------------------|-------------------------------------|---------------|------------|
|                                                     | 2018                                | 2017          | 2016       |
|                                                     |                                     | (In millions) |            |
| Personnel expenses . . . . .                        | ¥ 864,396                           | ¥ 833,755     | ¥ 785,547  |
| Depreciation and amortization . . . . .             | 171,043                             | 172,496       | 157,672    |
| Rent and lease expenses . . . . .                   | 117,400                             | 115,425       | 117,482    |
| Building and maintenance expenses . . . . .         | 11,167                              | 10,657        | 13,966     |
| Supplies expenses . . . . .                         | 16,902                              | 16,694        | 16,628     |
| Communication expenses . . . . .                    | 38,171                              | 37,250        | 36,634     |
| Publicity and advertising expenses . . . . .        | 80,464                              | 79,570        | 79,453     |
| Taxes and dues . . . . .                            | 83,976                              | 85,967        | 76,695     |
| Outsourcing expenses . . . . .                      | 96,733                              | 96,063        | 91,837     |
| Premiums for deposit insurance . . . . .            | 37,938                              | 38,180        | 36,175     |
| Office equipment expenses . . . . .                 | 54,708                              | 49,127        | 47,621     |
| Others . . . . .                                    | 240,223                             | 216,951       | 246,553    |
| Total general and administrative expenses . . . . . | ¥1,813,121                          | ¥1,752,135    | ¥1,706,263 |

### 34 OTHER EXPENSES

Other expenses for the fiscal years ended March 31, 2018, 2017 and 2016 consisted of the following:

|                                                                                               | For the fiscal year ended March 31, |                  |                  |
|-----------------------------------------------------------------------------------------------|-------------------------------------|------------------|------------------|
|                                                                                               | 2018                                | 2017             | 2016             |
|                                                                                               | (In millions)                       |                  |                  |
| Cost of operating leases . . . . .                                                            | ¥ 144,708                           | ¥ 126,320        | ¥ 95,440         |
| Cost related to disposal of assets leased . . . . .                                           | 310,460                             | 140,255          | 140,083          |
| Cost related to IT solution services and IT systems . . . . .                                 | 92,975                              | 92,247           | 90,563           |
| Provision for interest repayment . . . . .                                                    | 49,879                              | 11,439           | 141,024          |
| Losses on disposal of property, plant and equipment, and other<br>intangible assets . . . . . | 4,913                               | 6,041            | 4,302            |
| Impairment losses of property, plant and equipment . . . . .                                  | 27,816                              | 6,396            | 4,237            |
| Impairment losses of intangible assets . . . . .                                              | 35,666                              | 74,788           | 1,278            |
| Losses on sale of investments in subsidiaries and associates . . . . .                        | 28,250                              | —                | 24               |
| Impairment losses of investments in associates and joint ventures . .                         | 19,851                              | 14,941           | 17,306           |
| Others . . . . .                                                                              | 78,247                              | 59,332           | 44,706           |
| Total other expenses . . . . .                                                                | <u>¥ 792,765</u>                    | <u>¥ 531,759</u> | <u>¥ 538,963</u> |

### 35 INCOME TAX EXPENSE

The detail of income tax expense for the fiscal years ended March 31, 2018, 2017 and 2016 was as follows:

|                                                                                                            | For the fiscal year ended March 31, |                  |                  |
|------------------------------------------------------------------------------------------------------------|-------------------------------------|------------------|------------------|
|                                                                                                            | 2018                                | 2017             | 2016             |
|                                                                                                            | (In millions)                       |                  |                  |
| <b>Current tax:</b>                                                                                        |                                     |                  |                  |
| Charge for period . . . . .                                                                                | ¥ 228,342                           | ¥ 260,234        | ¥ 247,046        |
| <b>Deferred tax:</b>                                                                                       |                                     |                  |                  |
| Origination and reversal of temporary differences . . . . .                                                | 66,875                              | 12,391           | 130,072          |
| Change in the write-down of deferred tax assets on the current fiscal<br>year income tax expense . . . . . | (63,194)                            | (132,859)        | (34,000)         |
| Changes in tax rates and others <sup>(1)</sup> . . . . .                                                   | (2,645)                             | —                | 29,760           |
| Total deferred tax expense (benefit) . . . . .                                                             | <u>1,036</u>                        | <u>(120,468)</u> | <u>125,832</u>   |
| Total income tax expense . . . . .                                                                         | <u>¥ 229,378</u>                    | <u>¥ 139,766</u> | <u>¥ 372,878</u> |

- (1) The amount for the fiscal year ended March 31, 2018 mainly includes the effect of change in U.S. federal income tax rate which was changed from 36% to 21% effective January 1, 2018. The amount for the fiscal year ended March 31, 2016 presents the effect of changes in Japanese corporation tax rates. 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, 2018, 2017 and 2016.

|                                                                                                                            | For the fiscal year ended March 31, |          |            |
|----------------------------------------------------------------------------------------------------------------------------|-------------------------------------|----------|------------|
|                                                                                                                            | 2018                                | 2017     | 2016       |
|                                                                                                                            | (In millions, except percentages)   |          |            |
| Profit before tax                                                                                                          | ¥1,118,976                          | ¥880,352 | ¥1,325,700 |
| Income tax expense                                                                                                         | 229,378                             | 139,766  | 372,878    |
| Effective income tax rate                                                                                                  | 20.5%                               | 15.9%    | 28.1%      |
| Effective statutory tax rate in Japan <sup>(1)</sup>                                                                       | 30.9%                               | 30.9%    | 33.1%      |
| Effect of the change in the write-down of deferred tax assets on the current fiscal year income tax expense <sup>(2)</sup> | (5.7%)                              | (15.1%)  | (2.6%)     |
| Non-Japanese earnings                                                                                                      | (3.6%)                              | (1.9%)   | (2.7%)     |
| Tax impact of share of post-tax profit in associates and joint ventures                                                    | (1.4%)                              | (1.0%)   | (0.8%)     |
| Tax impact of impairment losses of goodwill                                                                                | 0.8%                                | 2.6%     | —          |
| Nontaxable dividends received                                                                                              | (0.8%)                              | (1.0%)   | (0.5%)     |
| Tax impact of impairment losses and reversal of impairment losses for investments in associates and joint ventures—net     | 0.3%                                | 0.5%     | 0.3%       |
| Gains on step acquisition of subsidiaries and associates and joint ventures which were not taxable                         | —                                   | (0.7%)   | —          |
| Changes in Japanese corporation tax rates                                                                                  | —                                   | —        | 2.2%       |
| Others—net                                                                                                                 | —                                   | 1.6%     | (0.9%)     |
| Effective income tax rate                                                                                                  | 20.5%                               | 15.9%    | 28.1%      |

- (1) The effective statutory tax rate in Japan for the fiscal years ended March 31, 2018 and 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, the effective inhabitant tax rate and the effective enterprise tax rate were changed from 22.5%, 3.7% and 5.9%, respectively, which were applied to the fiscal year ended March 31, 2016.
- (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, 2018, 2017 and 2016.

|                                                                                                           | For the fiscal year ended March 31,                       |           |           |
|-----------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|-----------|-----------|
|                                                                                                           | 2018                                                      | 2017      | 2016      |
|                                                                                                           | (In millions, except number of shares and per share data) |           |           |
| <b>Basic:</b>                                                                                             |                                                           |           |           |
| Profit attributable to shareholders of the Company . . . . .                                              | ¥ 759,998                                                 | ¥ 627,870 | ¥ 843,920 |
| Weighted average number of common stock in issue (in thousands of shares) . . . . .                       | 1,410,442                                                 | 1,369,231 | 1,367,229 |
| Basic earnings per share . . . . .                                                                        | ¥ 538.84                                                  | ¥ 458.56  | ¥ 617.25  |
| <b>Diluted:</b>                                                                                           |                                                           |           |           |
| Profit attributable to the common shareholders of the Company . . . . .                                   | ¥ 759,998                                                 | ¥ 627,870 | ¥ 843,920 |
| Impact of dilutive potential ordinary shares issued by subsidiaries . . . . .                             | (10)                                                      | (11)      | (1)       |
| Net profit used to determine diluted earnings per share . . . . .                                         | ¥ 759,988                                                 | ¥ 627,859 | ¥ 843,919 |
| Weighted average number of common stock in issue (in thousands of shares) . . . . .                       | 1,410,442                                                 | 1,369,231 | 1,367,229 |
| Adjustments for stock options (in thousands of shares) . . . . .                                          | 1,052                                                     | 1,093     | 928       |
| Weighted average number of common stock for diluted earnings per share (in thousands of shares) . . . . . | 1,411,494                                                 | 1,370,324 | 1,368,157 |
| Diluted earnings per share . . . . .                                                                      | ¥ 538.43                                                  | ¥ 458.18  | ¥ 616.83  |

### 37 TRANSFERS OF FINANCIAL ASSETS

In the normal course of business, the SMBC 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 SMBC 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 SMBC 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, 2018 and 2017:

|                                                                          | At March 31, 2018                                         |                       |                 |                       |
|--------------------------------------------------------------------------|-----------------------------------------------------------|-----------------------|-----------------|-----------------------|
|                                                                          | Repurchase agreements and securities lending transactions | Loans and advances    |                 |                       |
|                                                                          |                                                           | Residential mortgages | Corporate loans | Others <sup>(1)</sup> |
|                                                                          |                                                           | (In millions)         |                 |                       |
| Carrying amount of assets . . . . .                                      | ¥ 7,730,783                                               | ¥ 1,432,966           | ¥ 857,690       | ¥ 49,151              |
| Carrying amount of associated liabilities . . .                          | 7,271,817                                                 | 1,154,831             | 853,207         | 40,584                |
| For those liabilities that have recourse only to the transferred assets: |                                                           |                       |                 |                       |
| Fair value of assets . . . . .                                           | ¥ —                                                       | ¥ 1,615,329           | ¥ 861,824       | ¥ 48,254              |
| Fair value of associated liabilities . . . . .                           | —                                                         | 1,207,899             | 853,551         | 40,870                |
| Net position . . . . .                                                   | ¥ —                                                       | ¥ 407,430             | ¥ 8,273         | ¥ 7,384               |

|                                                                          | 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  |

(1) Others include loans and advances reclassified as assets held for sale and liabilities directly associated with the assets held for sale related to SMFL. For additional information, refer to Note 50 "Assets and Disposal Groups Held for Sale."

### Repurchase Agreements and Securities Lending Transactions

The SMBC 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 SMBC 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 SMBC 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 SMBC 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 SMBC Group retains substantially all the risks and rewards of ownership, the transferred financial assets do not qualify for derecognition. The SMBC 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, 2018 and 2017 were as follows:

|                                                                 | At March 31,       |                    |
|-----------------------------------------------------------------|--------------------|--------------------|
|                                                                 | 2018               | 2017               |
|                                                                 | (In millions)      |                    |
| Cash and deposits with banks <sup>(1)</sup> . . . . .           | ¥ 32,010           | ¥ 87,670           |
| Trading assets . . . . .                                        | 2,423,002          | 2,426,665          |
| Financial assets at fair value through profit or loss . . . . . | 1,518,748          | 1,570,904          |
| Held-to-maturity investments . . . . .                          | 365,450            | 1,168,111          |
| Available-for-sale financial assets . . . . .                   | 10,648,468         | 8,128,082          |
| Loans and advances <sup>(1)</sup> . . . . .                     | 11,019,253         | 10,058,951         |
| Other assets <sup>(1)</sup> . . . . .                           | 1,825,987          | 1,308,136          |
| Total . . . . .                                                 | <u>¥27,832,918</u> | <u>¥24,748,519</u> |

(1) Cash and deposits with banks, loans and advances, and other assets include those at SMFL, which are reclassified as assets held for sale. For additional information, refer to Note 50 “Assets and Disposal Groups Held for Sale.”

The SMBC 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.

Loaned securities for which the borrowers have the right to sell or repledge were ¥7,731,243 million and ¥5,201,373 million at March 31, 2018 and 2017, respectively.

For the reserve funds with the Bank of Japan and other reserve deposits for foreign offices maintained by the SMBC 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 SMBC 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 ¥12,218,264 million and ¥13,673,077 million at March 31, 2018 and 2017, respectively. As to the securities received in the reverse repurchase agreements and securities borrowing transactions, the SMBC Group has the obligation to return equivalent securities upon completion of the transactions. The fair value of securities sold or repledged to others was ¥8,839,133 million and ¥7,787,059 million at March 31, 2018 and 2017, respectively.

### 39 SHARE-BASED PAYMENT

#### Stock Option Plans

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.

|                                         | Title of grantees                                                     | Exercise period                                                                               | Requisite service period                                                                                                                                   | Method of settlement |
|-----------------------------------------|-----------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
| 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 March 31, 2018 and 2017 were as follows:

|                                              | For the fiscal year ended March 31, |                                 |                                  |                                 |
|----------------------------------------------|-------------------------------------|---------------------------------|----------------------------------|---------------------------------|
|                                              | 2018                                |                                 | 2017                             |                                 |
|                                              | Number of options <sup>(1)</sup>    | Weighted average exercise price | Number of options <sup>(1)</sup> | Weighted average exercise price |
| Outstanding at beginning of period . . . . . | 1,180,000                           | ¥ 1                             | 984,400                          | ¥ 1                             |
| Granted . . . . .                            | —                                   | —                               | 201,200                          | 1                               |
| Exercised . . . . .                          | (174,700)                           | 1                               | (4,400)                          | 1                               |
| Forfeited or expired . . . . .               | (2,300)                             | 1                               | (1,200)                          | 1                               |
| Outstanding at end of period . . . . .       | 1,003,000                           | ¥ 1                             | 1,180,000                        | ¥ 1                             |
| Exercisable at end of period . . . . .       | 463,100                             | ¥ 1                             | 421,900                          | ¥ 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 ¥4,245 and ¥4,400 for the fiscal years ended March 31, 2018 and 2017, respectively.

Summarized information about stock options outstanding at March 31, 2018 and 2017 was as follows:

|                                         |                | At March 31,      |                                      |                   |                                      |
|-----------------------------------------|----------------|-------------------|--------------------------------------|-------------------|--------------------------------------|
|                                         |                | 2018              |                                      | 2017              |                                      |
|                                         | Exercise price | Number of options | Remaining contractual lives in years | Number of options | Remaining contractual lives in years |
| SMFG Stock Acquisition Rights . . . . . | ¥ 1            | 1,003,000         | 25.3                                 | 1,180,000         | 26.3                                 |

The amounts of stock options recognized as expenses were measured based on the fair value of stock options granted, which were ¥135 million and ¥581million for the fiscal years ended March 31, 2018 and 2017,

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. During the fiscal year ended March 31, 2018, there were no issuance of new stock options since SMFG and SMBC resolved to discontinue the issuance of new stock options.

|                                                    | For the fiscal year ended<br>March 31, 2017 |        |
|----------------------------------------------------|---------------------------------------------|--------|
| Fair value at measurement date                     | ¥                                           | 2,811  |
| Stock price                                        | ¥                                           | 3,362  |
| Exercise price                                     | ¥                                           | 1      |
| Expected volatility <sup>(1)</sup>                 |                                             | 32.20% |
| Expected remaining lives (in years) <sup>(2)</sup> |                                             | 4      |
| Expected dividends per share <sup>(3)</sup>        | ¥                                           | 150    |
| Risk free interest rate <sup>(4)</sup>             |                                             | 0.17%  |

(1) Calculated based on the actual stock prices during the 4 years August 16, 2012 to August 15, 2016 for the fiscal year ended March 31, 2017.

(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.

### Compensation Plans Utilizing Restricted Stock

On July 10, 2017, the SMFG compensation committee resolved to revise the executive compensation policy and to introduce new stock compensation plans that utilize restricted stock.

The plans consist of Stock Compensation Plan I (“Plan I”), which determines remuneration primarily based on the medium-term performance, Stock Compensation Plan II (“Plan II”), which determines remuneration primarily based on the annual performance and Stock Compensation Plan III (“Plan III”), which determines remuneration primarily based on corporate title.

Plan I (medium-term performance share plan) has an evaluation period of three years starting from the fiscal year ended March 31, 2018, corresponding with the medium-term management plan. Executives are initially allotted shares of restricted stock equivalent to the monetary amount determined based on the executive’s corporate title. After the completion of the evaluation period, the compensation committee will review the progress of the medium-term management plan, performance of SMFG’s common stock, and results of customer satisfaction surveys and other factors, to determine the final amount to be released from transfer restrictions. In case the final amount falls below the initial amount, SMFG will retrieve all or part of the allotted shares at no cost.

Under Plan II (annual performance share plan), executives are allotted shares of restricted stock equivalent to a certain portion of the monetary amount determined based on the annual performance of SMFG and SMBC, as well as on the individual performance of the executives reviewed both from short-term and medium-to-long-term perspectives. The remainder will be paid to the executives as a cash bonus. Transfer restrictions on these shares are released evenly over the three-year period following the year of allotment.

Under Plan III (promotion reward plan), executives are allotted shares of restricted stock equivalent to pre-determined compensation amounts per title, reflecting the increased responsibilities derived from promotions. Restrictions shall apply to the shares until the earlier of 30 years from allotment or when the executive retires from office.

The eligible executives for the plans are directors (excluding outside directors), corporate executive officers and executive officers of SMFG and directors (excluding outside directors), executive officers and corporate auditors (excluding outside corporate auditors), etc. of SMBC, who are designated by the SMFG compensation committee or by SMBC and residing and serving in Japan. However, members of the SMFG audit committee and SMBC corporate auditors will only be eligible for Plan III.

As part of the new policy, SMFG and SMBC introduced provisions for forfeiture and claw-back of vested stock under the plans in order to restrain excessive risk-taking and foster a prudent risk culture expected of a financial institution.

The number of restricted shares for the fiscal year ended March 31, 2018 and the fair value of restricted shares at the measurement date were as follows:

|                                          | <b>For the fiscal year ended<br/>March 31, 2018</b> |
|------------------------------------------|-----------------------------------------------------|
| Outstanding at beginning of period ..... | —                                                   |
| Allotted .....                           | 387,765                                             |
| Released .....                           | —                                                   |
| Forfeited .....                          | —                                                   |
| Outstanding at end of period .....       | 387,765                                             |
| Fair value at measurement date .....     | ¥ 4,372                                             |

The fair value of restricted shares is based on the market price of SMFG common stock. If any granted conditions exist, the terms and conditions upon which the shares were granted, are taken into account when estimating both the number of shares expected to vest and the fair value of the shares granted. The amount of restricted shares recognized as expenses was measured based on the fair value of the restricted shares granted, which was ¥803 million for the fiscal year ended March 31, 2018 and included in “General and administrative expenses” in the consolidated income statement.

#### **40 DIVIDENDS PER SHARE**

The dividends recognized by the SMBC Group for the fiscal years ended March 31, 2018, 2017 and 2016 were as follows:

|                                           | <b>Dividends per share</b> | <b>Aggregate amount</b> |
|-------------------------------------------|----------------------------|-------------------------|
|                                           | <b>(In yen)</b>            | <b>(In millions)</b>    |
| For the fiscal year ended March 31, 2018: |                            |                         |
| Common stock .....                        | ¥155                       | ¥218,596                |
| 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                |

The Company proposed to the shareholders the distribution of a dividend of ¥90 per share of common stock totaling ¥126,950 million in respect of the fiscal year ended March 31, 2018. The dividend is subject to the approval at the general meeting of shareholders on June 28, 2018. The consolidated financial statements for the fiscal year ended March 31, 2018 do not include this dividend.

## 41 CONTINGENCY AND CAPITAL COMMITMENTS

### Legal Proceedings

The SMBC 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 SMBC Group does not expect that the outcome of these proceedings will have a significant adverse effect on the consolidated financial statements of the SMBC Group. The SMBC Group has recorded adequate provisions with respect to litigation arising out of normal business operations. The SMBC Group has not disclosed any contingent liability associated with these legal actions because it cannot reliably be estimated.

### Capital Commitments

At March 31, 2018 and 2017, the SMBC Group had ¥2,626 million and ¥2,773,096 million, respectively, of contractual commitments to acquire property, plant and equipment. In addition, the SMBC Group had ¥383 million and ¥317 million of contractual commitments to acquire intangible assets, such as software at March 31, 2018 and 2017, respectively. The SMBC 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 SMBC Group can reject an application from customers or reduce the contract amounts in cases where economic conditions change, the SMBC 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, 2018 and 2017.

|                                                                            | At March 31,       |                    |
|----------------------------------------------------------------------------|--------------------|--------------------|
|                                                                            | 2018               | 2017               |
|                                                                            | (In millions)      |                    |
| Loan commitments .....                                                     | ¥60,107,128        | ¥62,357,210        |
| Financial guarantees and other credit-related contingent liabilities ..... | 8,426,245          | 7,924,711          |
| Total .....                                                                | <u>¥68,533,373</u> | <u>¥70,281,921</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, 2018                                                                                         |                                                                       |                              |                       |                                     |                                                  |               |  |
|-----------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------|------------------------------|-----------------------|-------------------------------------|--------------------------------------------------|---------------|--|
|                                                                                                           | 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> . . . . .                                                     | ¥ 4,773                                                               | ¥ —                          | ¥ 54,691,296          | ¥ —                                 | ¥ —                                              | ¥ 54,696,069  |  |
| Call loans and bills bought . . . . .                                                                     | —                                                                     | —                            | 1,881,880             | —                                   | —                                                | 1,881,880     |  |
| Reverse repurchase agreements and cash collateral on securities borrowed . . . . .                        | —                                                                     | —                            | 8,491,703             | —                                   | —                                                | 8,491,703     |  |
| Trading assets . . . . .                                                                                  | 3,169,123                                                             | —                            | —                     | —                                   | —                                                | 3,169,123     |  |
| Derivative financial instruments . . . . .                                                                | 3,885,271                                                             | —                            | —                     | —                                   | —                                                | 3,885,271     |  |
| Financial assets at fair value through profit or loss . . . . .                                           | 1,547,672                                                             | —                            | —                     | —                                   | —                                                | 1,547,672     |  |
| Investment securities <sup>(1)</sup> . . . . .                                                            | 2,588                                                                 | 372,459                      | —                     | 20,120,028                          | —                                                | 20,495,075    |  |
| Loans and advances <sup>(1)</sup> . . . . .                                                               | 3,169                                                                 | —                            | 85,125,901            | —                                   | —                                                | 85,129,070    |  |
| Other financial assets <sup>(2)</sup> . . . . .                                                           | —                                                                     | —                            | 3,598,642             | —                                   | —                                                | 3,598,642     |  |
| Financial assets included in assets held for sale . . . . .                                               | 1,693                                                                 | —                            | 3,098,196             | 108,882                             | —                                                | 3,208,771     |  |
| Total . . . . .                                                                                           | ¥ 8,614,289                                                           | ¥ 372,459                    | ¥ 156,887,618         | ¥ 20,228,910                        | ¥ —                                              | ¥ 186,103,276 |  |
| <b>Financial liabilities:</b>                                                                             |                                                                       |                              |                       |                                     |                                                  |               |  |
| Deposits <sup>(1)</sup> . . . . .                                                                         | ¥ 13,929                                                              | ¥ —                          | ¥ —                   | ¥ —                                 | ¥ 128,447,598                                    | ¥ 128,461,527 |  |
| Call money and bills sold . . . . .                                                                       | —                                                                     | —                            | —                     | —                                   | 1,190,929                                        | 1,190,929     |  |
| Repurchase agreements and cash collateral on securities lent . . . . .                                    | —                                                                     | —                            | —                     | —                                   | 12,022,593                                       | 12,022,593    |  |
| Trading liabilities . . . . .                                                                             | 2,143,899                                                             | —                            | —                     | —                                   | —                                                | 2,143,899     |  |
| Derivative financial instruments . . . . .                                                                | 3,498,016                                                             | —                            | —                     | —                                   | —                                                | 3,498,016     |  |
| Borrowings <sup>(1)</sup> . . . . .                                                                       | 1,198                                                                 | —                            | —                     | —                                   | 10,651,283                                       | 10,652,481    |  |
| Debt securities in issue <sup>(1)</sup> . . . . .                                                         | (7,635)                                                               | —                            | —                     | —                                   | 10,576,752                                       | 10,569,117    |  |
| Other financial liabilities <sup>(2)</sup> . . . . .                                                      | —                                                                     | —                            | —                     | —                                   | 6,691,042                                        | 6,691,042     |  |
| Financial liabilities included in liabilities directly associated with the assets held for sale . . . . . | 5,971                                                                 | —                            | —                     | —                                   | 3,371,556                                        | 3,377,527     |  |
| Total . . . . .                                                                                           | ¥ 5,655,378                                                           | ¥ —                          | ¥ —                   | ¥ —                                 | ¥ 172,951,753                                    | ¥ 178,607,131 |  |

At March 31, 2017

|                                                                                             | Financial<br>assets and<br>liabilities at<br>fair value<br>through profit<br>or loss | Held-to-maturity<br>investments | Loans and<br>receivables | Available-for-sale<br>financial assets | Financial<br>liabilities<br>measured at<br>amortized cost | Total         |
|---------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|---------------------------------|--------------------------|----------------------------------------|-----------------------------------------------------------|---------------|
| (In millions)                                                                               |                                                                                      |                                 |                          |                                        |                                                           |               |
| <b>Financial assets:</b>                                                                    |                                                                                      |                                 |                          |                                        |                                                           |               |
| Cash and deposits with<br>banks <sup>(1)</sup> . . . . .                                    | ¥ 5,511                                                                              | ¥ —                             | ¥ 47,324,644             | ¥ —                                    | ¥ —                                                       | ¥ 47,330,155  |
| Call loans and bills<br>bought . . . . .                                                    | —                                                                                    | —                               | 1,872,209                | —                                      | —                                                         | 1,872,209     |
| Reverse repurchase<br>agreements and cash<br>collateral on securities<br>borrowed . . . . . | —                                                                                    | —                               | 8,924,385                | —                                      | —                                                         | 8,924,385     |
| Trading assets . . . . .                                                                    | 3,776,671                                                                            | —                               | —                        | —                                      | —                                                         | 3,776,671     |
| Derivative financial<br>instruments . . . . .                                               | 4,063,982                                                                            | —                               | —                        | —                                      | —                                                         | 4,063,982     |
| Financial assets at fair<br>value through profit or<br>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<br>sold . . . . .                                                      | —                                                                                    | —                               | —                        | —                                      | 2,088,020                                                 | 2,088,020     |
| Repurchase agreements<br>and cash collateral on<br>securities lent . . . . .                | —                                                                                    | —                               | —                        | —                                      | 9,424,506                                                 | 9,424,506     |
| Trading liabilities . . . . .                                                               | 2,071,584                                                                            | —                               | —                        | —                                      | —                                                         | 2,071,584     |
| Derivative financial<br>instruments . . . . .                                               | 3,889,694                                                                            | —                               | —                        | —                                      | —                                                         | 3,889,694     |
| Borrowings <sup>(1)</sup> . . . . .                                                         | 654                                                                                  | —                               | —                        | —                                      | 12,245,289                                                | 12,245,943    |
| Debt securities in<br>issue <sup>(1)</sup> . . . . .                                        | 2,232                                                                                | —                               | —                        | —                                      | 11,163,391                                                | 11,165,623    |
| Other financial<br>liabilities <sup>(2)</sup> . . . . .                                     | —                                                                                    | —                               | —                        | —                                      | 7,201,137                                                 | 7,201,137     |
| Total . . . . .                                                                             | ¥ 5,984,529                                                                          | ¥ —                             | ¥ —                      | ¥ —                                    | ¥ 172,397,268                                             | ¥ 178,381,797 |

- (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 SMBC 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 SMBC 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 SMBC 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, 2018 and 2017.

|                                                                       | At March 31, 2018      |                        |           |             |
|-----------------------------------------------------------------------|------------------------|------------------------|-----------|-------------|
|                                                                       | Level 1 <sup>(1)</sup> | Level 2 <sup>(1)</sup> | Level 3   | Total       |
|                                                                       | (In millions)          |                        |           |             |
| <b>Financial assets:</b>                                              |                        |                        |           |             |
| Trading assets:                                                       |                        |                        |           |             |
| Debt instruments . . . . .                                            | ¥ 2,424,460            | ¥ 416,688              | ¥ —       | ¥ 2,841,148 |
| Equity instruments . . . . .                                          | 307,942                | 20,033                 | —         | 327,975     |
| Total trading assets . . . . .                                        | 2,732,402              | 436,721                | —         | 3,169,123   |
| Derivative financial instruments:                                     |                        |                        |           |             |
| Interest rate derivatives <sup>(2)</sup> . . . . .                    | 38,760                 | 2,033,894              | —         | 2,072,654   |
| Currency derivatives <sup>(2)</sup> . . . . .                         | —                      | 1,724,387              | 14        | 1,724,401   |
| Equity derivatives . . . . .                                          | 48,154                 | 21,310                 | 1,880     | 71,344      |
| Commodity derivatives . . . . .                                       | 402                    | 6,114                  | —         | 6,516       |
| Credit derivatives . . . . .                                          | —                      | 7,382                  | 4,667     | 12,049      |
| Total derivative financial instruments . . . . .                      | 87,316                 | 3,793,087              | 6,561     | 3,886,964   |
| Financial assets at fair value through profit or loss:                |                        |                        |           |             |
| Debt instruments . . . . .                                            | —                      | 1,518,778              | 10,143    | 1,528,921   |
| Equity instruments . . . . .                                          | 541                    | 153                    | 18,057    | 18,751      |
| Total financial assets at fair value through profit or loss . . . . . | 541                    | 1,518,931              | 28,200    | 1,547,672   |
| Available-for-sale financial assets:                                  |                        |                        |           |             |
| Japanese government bonds . . . . .                                   | 7,685,303              | —                      | —         | 7,685,303   |
| U.S. Treasury and other U.S. government agency bonds . . . . .        | 3,246,646              | —                      | —         | 3,246,646   |
| Other debt instruments . . . . .                                      | 700,500                | 2,650,103              | 154       | 3,350,757   |
| Equity instruments <sup>(2)</sup> . . . . .                           | 4,307,274              | 797,166                | 844,352   | 5,948,792   |
| Total available-for-sale financial assets . . . . .                   | 15,939,723             | 3,447,269              | 844,506   | 20,231,498  |
| Others <sup>(3)</sup> . . . . .                                       | —                      | 7,942                  | —         | 7,942       |
| Total . . . . .                                                       | ¥18,759,982            | ¥ 9,203,950            | ¥ 879,267 | ¥28,843,199 |
| <b>Financial liabilities:</b>                                         |                        |                        |           |             |
| Trading liabilities:                                                  |                        |                        |           |             |
| Debt instruments . . . . .                                            | ¥ 1,948,602            | ¥ 60,109               | ¥ —       | ¥ 2,008,711 |
| Equity instruments . . . . .                                          | 33,174                 | 102,014                | —         | 135,188     |
| Total trading liabilities . . . . .                                   | 1,981,776              | 162,123                | —         | 2,143,899   |
| Derivative financial instruments:                                     |                        |                        |           |             |
| Interest rate derivatives <sup>(2)</sup> . . . . .                    | 30,760                 | 1,947,673              | —         | 1,978,433   |
| Currency derivatives <sup>(2)</sup> . . . . .                         | 19                     | 1,406,759              | 14        | 1,406,792   |
| Equity derivatives . . . . .                                          | 78,088                 | 27,261                 | —         | 105,349     |
| Commodity derivatives . . . . .                                       | 464                    | 4,484                  | —         | 4,948       |
| Credit derivatives . . . . .                                          | —                      | 8,043                  | 422       | 8,465       |
| Total derivative financial instruments . . . . .                      | 109,331                | 3,394,220              | 436       | 3,503,987   |
| Others <sup>(3)</sup> . . . . .                                       | —                      | 6,659                  | 833       | 7,492       |
| Total . . . . .                                                       | ¥ 2,091,107            | ¥ 3,563,002            | ¥ 1,269   | ¥ 5,655,378 |

| At March 31, 2017                                                     |                        |                        |           |             |
|-----------------------------------------------------------------------|------------------------|------------------------|-----------|-------------|
|                                                                       | Level 1 <sup>(1)</sup> | Level 2 <sup>(1)</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>(3)</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>(3)</sup> . . . . .                                       | —                      | 23,554                 | (303)     | 23,251      |
| Total . . . . .                                                       | ¥ 2,061,440            | ¥ 3,923,371            | ¥ (282)   | ¥ 5,984,529 |

(1) 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, 2018 and 2017.

- (2) Interest rate derivatives and currency derivatives classified as derivative financial instruments (financial assets) include those at SMFL, which are reclassified as assets held for sale, of ¥533 million and ¥1,160 million, respectively. These derivative financial instruments are categorized within Level 2. Equity instruments which are classified as available-for-sale financial assets include those at SMFL, which are reclassified as assets held for sale, of which ¥56,447 million, ¥5,225 million and ¥47,210 million are categorized within Level 1, Level 2 and Level 3, respectively. Interest rate derivatives and currency derivatives classified as derivative financial instruments (financial liabilities) include those at SMFL, which are reclassified as liabilities directly associated with the assets held for sale, of ¥5,401 million and ¥570 million, respectively. These derivative financial instruments are categorized within Level 2. For additional information, refer to Note 50 “Assets and Disposal Groups Held for Sale.”
- (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, 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.

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, 2018 and 2017.

|                                                                   | Total gains (losses) |                               |                                              |           |           |                                            |                                          |                                            |                      | Changes in<br>unrealized gains<br>(losses) included in<br>profit or loss related<br>to assets<br>and liabilities held at<br>March 31, 2018 |
|-------------------------------------------------------------------|----------------------|-------------------------------|----------------------------------------------|-----------|-----------|--------------------------------------------|------------------------------------------|--------------------------------------------|----------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                   | At April 1,<br>2017  | Included in<br>profit or loss | Included in other<br>comprehensive<br>income | Purchases | Sales     | Settlement <sup>(1)</sup><br>(In millions) | Transfers into<br>Level 3 <sup>(2)</sup> | Transfers out of<br>Level 3 <sup>(2)</sup> | At March 31,<br>2018 |                                                                                                                                            |
| Derivative financial instruments—net:                             |                      |                               |                                              |           |           |                                            |                                          |                                            |                      |                                                                                                                                            |
| Interest rate derivatives—net                                     | ¥ 2                  | ¥ (45)                        | ¥ —                                          | ¥ 43      | ¥ —       | ¥ —                                        | ¥ —                                      | ¥ —                                        | ¥ —                  | ¥ —                                                                                                                                        |
| Currency derivatives—net                                          | 1                    | (1)                           | —                                            | —         | —         | —                                          | —                                        | —                                          | —                    | (1)                                                                                                                                        |
| Equity derivatives—net                                            | 1,327                | 1,106                         | —                                            | 474       | (1,027)   | —                                          | —                                        | —                                          | 1,880                | 1,499                                                                                                                                      |
| Credit derivatives—net                                            | 2,731                | 8,103                         | (158)                                        | —         | —         | (6,456)                                    | 25                                       | —                                          | 4,245                | 8,103                                                                                                                                      |
| Total derivative financial<br>instruments—net                     | 4,061                | 9,163                         | (158)                                        | 517       | (1,027)   | (6,456)                                    | 25                                       | —                                          | 6,125                | 9,601                                                                                                                                      |
| Financial assets at fair value through<br>profit or loss:         |                      |                               |                                              |           |           |                                            |                                          |                                            |                      |                                                                                                                                            |
| Debt instruments                                                  | 12,053               | (1,731)                       | —                                            | —         | —         | (149)                                      | —                                        | (30)                                       | 10,143               | (1,731)                                                                                                                                    |
| Equity instruments                                                | 14,286               | 378                           | —                                            | 4,915     | (648)     | (102)                                      | —                                        | (772)                                      | 18,057               | 109                                                                                                                                        |
| Total financial assets at fair<br>value through profit or<br>loss | 26,339               | (1,353)                       | —                                            | 4,915     | (648)     | (251)                                      | —                                        | (802)                                      | 28,200               | (1,622)                                                                                                                                    |
| Available-for-sale financial assets:                              |                      |                               |                                              |           |           |                                            |                                          |                                            |                      |                                                                                                                                            |
| Debt instruments                                                  | 526                  | 1,600                         | (13)                                         | —         | (1,613)   | (346)                                      | —                                        | —                                          | 154                  | (13)                                                                                                                                       |
| Equity instruments <sup>(3)</sup>                                 | 836,252              | (3,612)                       | 46,367                                       | 68,241    | (8,480)   | (73,897)                                   | 624                                      | (21,143)                                   | 844,352              | (6,380)                                                                                                                                    |
| Total available-for-sale<br>financial assets                      | 836,778              | (2,012)                       | 46,354                                       | 68,241    | (10,093)  | (74,243)                                   | 624                                      | (21,143)                                   | 844,506              | (6,393)                                                                                                                                    |
| Others <sup>(4)</sup> —liabilities:                               | 303                  | (812)                         | —                                            | —         | —         | —                                          | (324)                                    | —                                          | (833)                | (856)                                                                                                                                      |
| Total                                                             | ¥867,481             | ¥ 4,986                       | ¥ 46,196                                     | ¥73,673   | ¥(11,768) | ¥(80,950)                                  | ¥ 325                                    | ¥ (21,945)                                 | ¥ 877,998            | ¥ 730                                                                                                                                      |

|                                                                       | Total gains (losses) |                            |                                        |           |           |                           | 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> | Transfers into Level 3 <sup>(2)</sup>                                                                                    | Transfers out of Level 3 <sup>(2)</sup> | At March 31, 2017 |            |
|                                                                       | (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>(4)</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) |

- (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. For the fiscal year ended March 31, 2018, transfers out of Level 3 amounted to ¥21,945 million, primarily due to an increase in observability of certain private equity investments.
- (3) Equity instruments which are classified as available-for-sale financial assets include those at SMFL, which are reclassified as assets held for sale.
- (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.

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, 2018 and 2017 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, |            |
|------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|-----------|---------------------------------------------------------------------------------------------------------------------|------------|
|                                                                              | 2018                                                                                | 2017      | 2018                                                                                                                | 2017       |
| (In millions)                                                                |                                                                                     |           |                                                                                                                     |            |
| Net interest income                                                          | ¥ 1,273                                                                             | ¥ 524     | ¥ 762                                                                                                               | ¥ 322      |
| Net trading income                                                           | 7,064                                                                               | 14,474    | 7,970                                                                                                               | 13,148     |
| Net income (loss) from financial assets at fair value through profit or loss | (1,353)                                                                             | 575       | (1,622)                                                                                                             | (3)        |
| Net investment income                                                        | 4,399                                                                               | 7,394     | —                                                                                                                   | —          |
| Impairment charges on financial assets                                       | (6,397)                                                                             | (29,117)  | (6,380)                                                                                                             | (26,814)   |
| Total                                                                        | ¥ 4,986                                                                             | ¥ (6,150) | ¥ 730                                                                                                               | ¥ (13,347) |

### ***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 SMBC Group categorizes the majority of those transactions within Level 2.

The credit loss protection scheme which the SMBC 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 SMBC 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 SMBC 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 SMBC 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 SMBC 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 SMBC 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, 2018 and 2017.

| At March 31, 2018                                      |               |                                       |                                                |                                |
|--------------------------------------------------------|---------------|---------------------------------------|------------------------------------------------|--------------------------------|
|                                                        | 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 . . . . . ¥                       | 14            | Option model                          | Foreign exchange volatility                    | 10%-14%                        |
| Equity derivatives . . . . .                           | 1,880         | Option model                          | Equity volatility                              | 11%-52%                        |
|                                                        |               |                                       | Equity to equity correlation                   | 45%-94%                        |
| Credit derivatives . . . . .                           | 4,667         | CDO pricing model                     | Additional withdrawal ratio                    | 48%                            |
|                                                        |               | Credit Default model                  | Quanto correlation                             | 15%-90%                        |
| Financial assets at fair value through profit or loss: |               |                                       |                                                |                                |
| Debt instruments . . . . .                             | 10,143        | Monte Carlo Simulation                | Equity volatility                              | 12%-25%                        |
| Equity instruments . . . . .                           | 18,057        | Market multiples                      | Price/Earnings multiple                        | 8.3x-19.5x                     |
|                                                        |               |                                       | EV/EBITDA multiple                             | 8.7x                           |
|                                                        |               |                                       | Liquidity discount                             | 0%-20%                         |
|                                                        |               | See note (2) below                    | —                                              | —                              |
| Available-for-sale financial assets:                   |               |                                       |                                                |                                |
| Debt instruments . . . . .                             | 154           | DCF method                            | Discount margin                                | 8%                             |
| Equity instruments <sup>(3)</sup> . . . . .            | 844,352       | Market multiples                      | Price/Book value multiple                      | 0.3x-2.4x                      |
|                                                        |               |                                       | Price/Earnings multiple                        | 11.7x-31.4x                    |
|                                                        |               |                                       | EV/EBITDA multiple                             | 5.4x-16.8x                     |
|                                                        |               |                                       | Liquidity discount                             | 20%                            |
|                                                        |               | Monte Carlo Simulation                | Equity volatility                              | 42%-51%                        |
|                                                        |               | Net asset value <sup>(4)</sup>        | —                                              | —                              |
|                                                        |               | See note (2) below                    | —                                              | —                              |
| <b>Financial liabilities:</b>                          |               |                                       |                                                |                                |
| Derivative financial instruments:                      |               |                                       |                                                |                                |
| Currency derivatives . . . . . ¥                       | 14            | Option model                          | Foreign exchange volatility                    | 10%-14%                        |
| Credit derivatives . . . . .                           | 422           | Credit Default model                  | Quanto correlation                             | 20%-30%                        |
| Others <sup>(5)</sup> . . . . .                        | 833           | Option model                          | Equity volatility                              | 23%-38%                        |
|                                                        |               |                                       | Equity to equity correlation                   | 45%-94%                        |
|                                                        |               |                                       | Interest rate to interest rate correlation     | 31%-100%                       |
|                                                        |               | Credit Default model                  | Quanto correlation                             | 15%-90%                        |

**At March 31, 2017**

|                                                        | <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 rate 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>(4)</sup>              | —                                                    | —                                    |
|                                                        |                      | See note (2) below                          | —                                                    | —                                    |
| <b>Financial liabilities:</b>                          |                      |                                             |                                                      |                                      |
| Derivative financial instruments:                      |                      |                                             |                                                      |                                      |
| Currency derivatives . . . . . ¥                       | 21                   | Option model                                | Foreign exchange volatility                          | 9%-17%                               |
| Others <sup>(5)</sup> . . . . .                        | (303)                | Option model                                | Equity volatility                                    | 24%-64%                              |
|                                                        |                      |                                             | Equity to equity correlation                         | 44%-93%                              |
|                                                        |                      |                                             | Interest rate to interest rate correlation           | 14%-100%                             |

(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) Equity instruments which are classified as available-for-sale financial assets include those at SMFL, which are reclassified as assets held for sale.

(4) The SMBC Group has determined that the net asset value represents fair values of certain investment funds.

(5) 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. Correlations could

be any combination of variables such as interest rates, foreign exchange rates, CDS spread and stock price movements. Thus, both same-asset correlation and cross-asset correlation are used. Interest rate correlation between two different tenors is an example of same-asset correlations while quanto correlation which is the correlation between foreign exchange rates and another variable is an example of cross-asset correlation. 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 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. These multiples are estimated based on comparable listed companies. In general, a significant increase in the P/E multiple or P/B 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, 2018                                      |                                                               |                                      |                        |                                       |                        |
|--------------------------------------------------------|---------------------------------------------------------------|--------------------------------------|------------------------|---------------------------------------|------------------------|
|                                                        | Total fair value<br>measured using<br>valuation<br>techniques | Effect recorded in<br>profit or loss |                        | Effect recorded<br>directly in equity |                        |
|                                                        |                                                               | Favorable<br>changes                 | Unfavorable<br>changes | Favorable<br>changes                  | Unfavorable<br>changes |
|                                                        |                                                               | (In millions)                        |                        |                                       |                        |
| <b>Financial assets:</b>                               |                                                               |                                      |                        |                                       |                        |
| Derivative financial instruments:                      |                                                               |                                      |                        |                                       |                        |
| Currency derivatives .....                             | ¥ 14                                                          | ¥ 80                                 | ¥ 1                    | ¥ —                                   | ¥ —                    |
| Equity derivatives .....                               | 1,880                                                         | 271                                  | 310                    | —                                     | —                      |
| Credit derivatives .....                               | 4,667                                                         | 4,515                                | 11,765                 | —                                     | —                      |
| Financial assets at fair value through profit or loss: |                                                               |                                      |                        |                                       |                        |
| Debt instruments .....                                 | 10,143                                                        | 278                                  | —                      | —                                     | —                      |
| Equity instruments .....                               | 18,057                                                        | 361                                  | 336                    | —                                     | —                      |
| Available-for-sale financial assets:                   |                                                               |                                      |                        |                                       |                        |
| Debt instruments .....                                 | 154                                                           | —                                    | —                      | 4                                     | 2                      |
| Equity instruments <sup>(1)</sup> .....                | 844,352                                                       | —                                    | —                      | 26,835                                | 25,290                 |

### Financial liabilities:

|                                   |      |       |       |     |     |
|-----------------------------------|------|-------|-------|-----|-----|
| Derivative financial instruments: |      |       |       |     |     |
| Currency derivatives              | ¥ 14 | ¥ 2   | ¥ 80  | ¥ — | ¥ — |
| Credit derivatives                | 422  | 35    | 35    | —   | —   |
| Others <sup>(2)</sup>             | 833  | 1,375 | 3,090 | —   | —   |

|                                                        | At March 31, 2017                                             |                                      |                        |                                       |                        |
|--------------------------------------------------------|---------------------------------------------------------------|--------------------------------------|------------------------|---------------------------------------|------------------------|
|                                                        | Total fair value<br>measured using<br>valuation<br>techniques | Effect recorded in<br>profit or loss |                        | Effect recorded<br>directly in equity |                        |
|                                                        |                                                               | Favorable<br>changes                 | Unfavorable<br>changes | Favorable<br>changes                  | Unfavorable<br>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                 |

### Financial liabilities:

|                                   |       |       |       |     |     |
|-----------------------------------|-------|-------|-------|-----|-----|
| Derivative financial instruments: |       |       |       |     |     |
| Currency derivatives              | ¥ 21  | ¥ 2   | ¥ 92  | ¥ — | ¥ — |
| Others <sup>(2)</sup>             | (303) | 1,121 | 1,716 | —   | —   |

(1) Equity instruments which are classified as available-for-sale financial assets include those at SMFL, which are reclassified as assets held for sale.

(2) 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 SMBC Group’s consolidated statement of financial position at March 31, 2018 and 2017.

|                                                                         |       | At March 31, 2018  |              |              |             |            |
|-------------------------------------------------------------------------|-------|--------------------|--------------|--------------|-------------|------------|
|                                                                         |       | Carrying<br>amount | Fair value   |              |             |            |
|                                                                         | Notes |                    | Total        | Level 1      | Level 2     | Level 3    |
| (In millions)                                                           |       |                    |              |              |             |            |
| <b>Financial assets:</b>                                                |       |                    |              |              |             |            |
| Cash and deposits with banks . . . . .                                  | a     | ¥ 54,696,069       | ¥ 54,708,231 | ¥ 53,401,133 | ¥ 1,307,098 | ¥ —        |
| Call loans and bills bought:                                            |       |                    |              |              |             |            |
| Call loans . . . . .                                                    | a     | 1,858,802          | 1,859,176    | —            | 1,859,176   | —          |
| Bills bought . . . . .                                                  | a     | 23,078             | 23,051       | —            | 23,051      | —          |
| Reverse repurchase agreements and cash collateral on securities         |       |                    |              |              |             |            |
| borrowed . . . . .                                                      | a     | 8,491,703          | 8,491,858    | —            | 8,491,858   | —          |
| Investment securities:                                                  |       |                    |              |              |             |            |
| Held-to-maturity investments . . .                                      | b     | 372,459            | 374,597      | 374,597      | —           | —          |
| Loans and advances . . . . .                                            | a     | 85,129,070         | 87,538,646   | —            | 258,673     | 87,279,973 |
| Other financial assets . . . . .                                        | a     | 3,598,642          | 3,595,216    | —            | 3,429,143   | 166,073    |
| Financial assets included in assets                                     |       |                    |              |              |             |            |
| held for sale . . . . .                                                 | a     | 3,098,196          | 3,224,902    | 3,824        | 84,058      | 3,137,020  |
| <b>Financial liabilities:</b>                                           |       |                    |              |              |             |            |
| Deposits:                                                               |       |                    |              |              |             |            |
| Non-interest-bearing deposits, demand deposits and deposits             |       |                    |              |              |             |            |
| at notice . . . . .                                                     | c     | ¥ 84,121,443       | ¥ 84,121,124 | ¥ —          | ¥84,121,124 | ¥ —        |
| Other deposits . . . . .                                                | c     | 44,340,084         | 44,339,583   | —            | 44,339,583  | —          |
| Call money and bills sold:                                              |       |                    |              |              |             |            |
| Call money . . . . .                                                    | c     | 1,190,929          | 1,190,936    | —            | 1,190,936   | —          |
| Bills sold . . . . .                                                    | c     | —                  | —            | —            | —           | —          |
| Repurchase agreements and cash                                          |       |                    |              |              |             |            |
| collateral on securities lent . . . . .                                 | c     | 12,022,593         | 12,022,593   | —            | 12,022,593  | —          |
| Borrowings . . . . .                                                    | c     | 10,652,481         | 10,761,610   | —            | 10,739,893  | 21,717     |
| Debt securities in issue . . . . .                                      | c     | 10,569,117         | 10,767,745   | —            | 10,587,917  | 179,828    |
| Other financial liabilities . . . . .                                   | c     | 6,691,042          | 6,691,016    | —            | 6,571,846   | 119,170    |
| Financial liabilities included in                                       |       |                    |              |              |             |            |
| liabilities directly associated with the assets held for sale . . . . . | c     | 3,371,556          | 3,380,139    | —            | 3,380,139   | —          |

| At March 31, 2017                                               |                    |              |               |              |             |            |
|-----------------------------------------------------------------|--------------------|--------------|---------------|--------------|-------------|------------|
| Notes                                                           | Carrying<br>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    |

**Financial liabilities:**

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 |

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, 2018 and 2017.

| At March 31, 2018                                                                  |                                                              |                                                                        |                                                          |                                                                              |                    |                   |
|------------------------------------------------------------------------------------|--------------------------------------------------------------|------------------------------------------------------------------------|----------------------------------------------------------|------------------------------------------------------------------------------|--------------------|-------------------|
|                                                                                    | 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> |                    |                   |
|                                                                                    |                                                              |                                                                        |                                                          | Financial instruments <sup>(3)</sup>                                         | Cash collateral    | Net amounts       |
|                                                                                    | (In millions)                                                |                                                                        |                                                          |                                                                              |                    |                   |
| <b>Financial assets<sup>(4)</sup>:</b>                                             |                                                              |                                                                        |                                                          |                                                                              |                    |                   |
| Reverse repurchase agreements and cash collateral on securities borrowed . . . . . | ¥ 9,346,594                                                  | ¥ (854,891)                                                            | ¥ 8,491,703                                              | ¥ (8,458,707)                                                                | ¥ —                | ¥ 32,996          |
| Derivative financial instruments . . .                                             | 4,729,842                                                    | (844,571)                                                              | 3,885,271                                                | (1,999,343)                                                                  | (479,814)          | 1,406,114         |
| Total . . . . .                                                                    | <u>¥14,076,436</u>                                           | <u>¥ (1,699,462)</u>                                                   | <u>¥ 12,376,974</u>                                      | <u>¥(10,458,050)</u>                                                         | <u>¥ (479,814)</u> | <u>¥1,439,110</u> |
| <b>Financial liabilities<sup>(4)</sup>:</b>                                        |                                                              |                                                                        |                                                          |                                                                              |                    |                   |
| Repurchase agreements and cash collateral on securities lent . . . . .             | ¥12,877,484                                                  | ¥ (854,891)                                                            | ¥ 12,022,593                                             | ¥(12,019,290)                                                                | ¥ —                | ¥ 3,303           |
| Derivative financial instruments . . .                                             | 4,526,765                                                    | (1,028,749)                                                            | 3,498,016                                                | (2,009,835)                                                                  | (587,693)          | 900,488           |
| Total . . . . .                                                                    | <u>¥17,404,249</u>                                           | <u>¥ (1,883,640)</u>                                                   | <u>¥ 15,520,609</u>                                      | <u>¥(14,029,125)</u>                                                         | <u>¥ (587,693)</u> | <u>¥ 903,791</u>  |
| 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> |                    |                   |
|                                                                                    |                                                              |                                                                        |                                                          | Financial instruments <sup>(3)</sup>                                         | Cash collateral    | Net amounts       |
|                                                                                    | (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 . . . . .                                                                    | <u>¥14,838,697</u>                                           | <u>¥ (1,850,330)</u>                                                   | <u>¥ 12,988,367</u>                                      | <u>¥(11,116,509)</u>                                                         | <u>¥ (318,106)</u> | <u>¥1,553,752</u> |
| <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 . . . . .                                                                    | <u>¥15,339,320</u>                                           | <u>¥ (2,025,120)</u>                                                   | <u>¥ 13,314,200</u>                                      | <u>¥(11,618,344)</u>                                                         | <u>¥ (719,483)</u> | <u>¥ 976,373</u>  |

(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 SMBC 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 SMBC Group classifies risks into the following categories: credit risk, market risk, liquidity risk and operational risk. This note presents information about the SMBC 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 SMBC Group introduced SMBC Group-wide business units and a Group Chief Officers system (“CxO system”). In addition, the SMBC 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 SMBC Group changed its risk management system, including by introducing a Group Chief Risk Officer (“CRO”) who reports to the board of directors and its internal committees and conducting various meetings for business executions to centrally identify and manage risks.

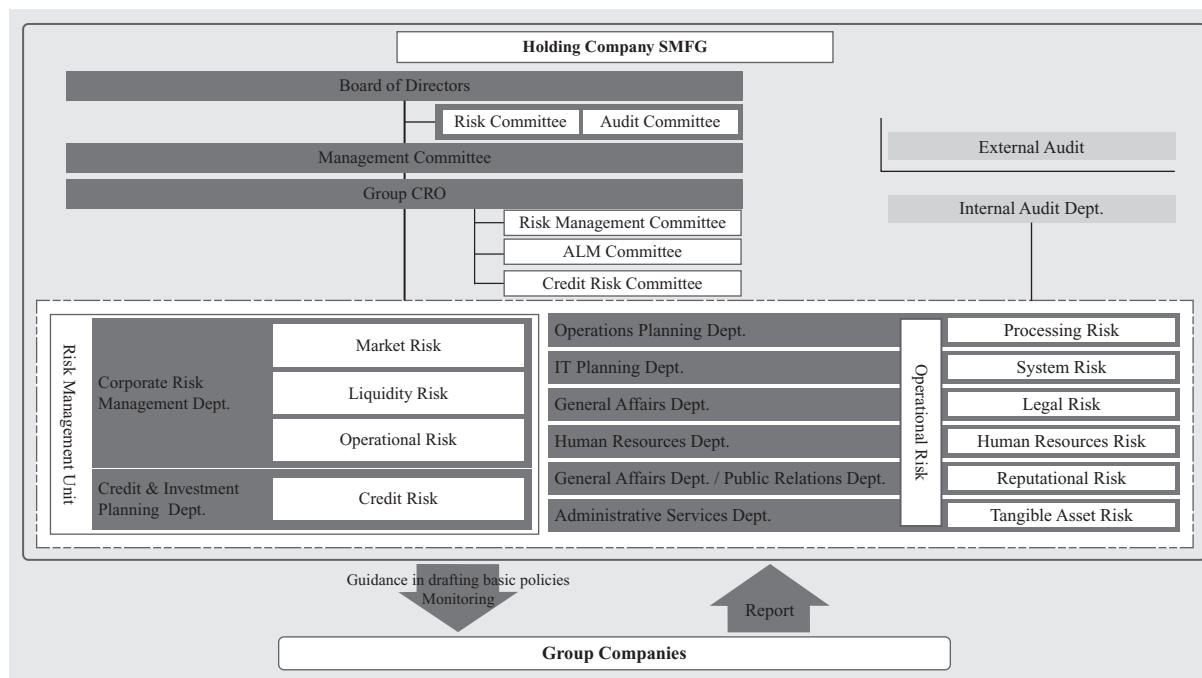
### **Risk Management System**

Top management plays an active role in the risk management process out of recognition for the importance of risk management. The SMBC Group-wide basic policies for risk management are determined by the Management Committee before being authorized by the board of directors.

In line with these basic policies for risk management, the functions for managing major risks are consolidated within the Risk Management Unit, which is independent from business units, and the SMBC Group seeks to refine its risk management system through such means as enhancing comprehensive reviews of each risk category. In addition, the Internal Audit Unit conducts internal audits on the status of risk management to verify that risk is appropriately managed.

Risk management systems are in place at individual SMBC Group companies that have been established based on the characteristics of their particular businesses and in accordance with the basic policies. Furthermore, the SMBC Group is sharing information on SMBC Group-wide risk management and strengthening related systems through the Group CRO Committee, which consists of the Group CRO and risk management representatives from strategically important SMBC Group companies.

The diagram below represents the risk management system of the SMBC Group.



## Risk Capital Management

In managing credit risk, market risk, and operational risk affecting the entire SMBC Group, the SMBC Group applies a uniform standard, risk capital based on value at risk (“VaR”), for use in monitoring and managing risks. This standard is applied while taking into account the characteristics of each risk and of the businesses of SMBC Group companies. Specific risk capital measures include setting upper limits for risk exposure based on SMBC Group-wide and business unit risk appetite and SMBC Group-wide management constitution. Each business unit operates business operation within that limit. Through these precautions, the SMBC Group practices management that maintains an appropriate balance between risks and returns based on a comprehensive perspective and secures sufficient financial soundness.

## 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.

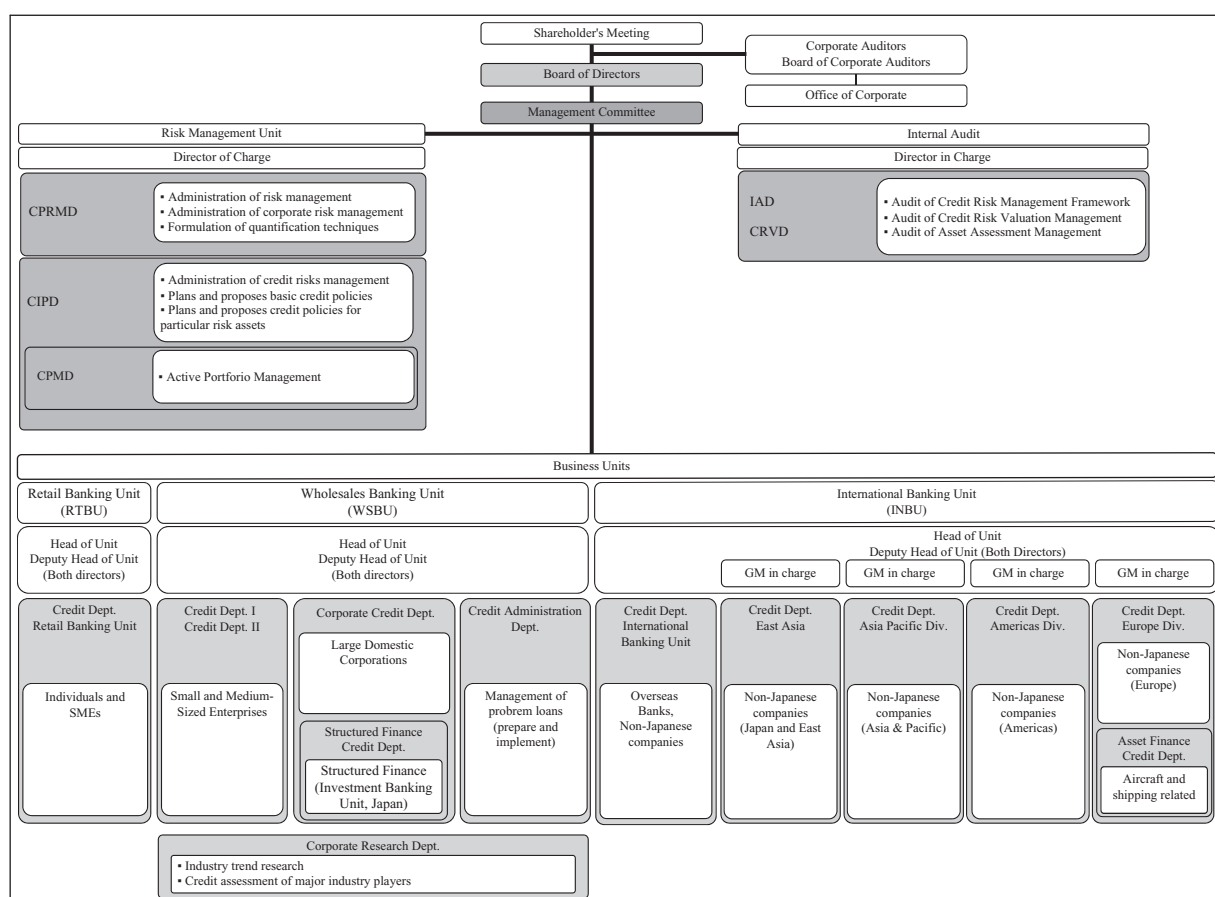
### *Credit risk management system*

Credit risk is the most significant risk to which the SMBC 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.

At the SMBC Group, the Group CRO formulates credit risk management policies each year on the basis of Group-wide basic policies for risk management. The Credit & Investment Planning Department, responsible for

the comprehensive management of credit risk, drafts and administers credit risk regulations including the Group credit policies, manages non-performing loans (“NPLs”), and performs other aspects of credit portfolio management. Also, the Credit Risk Committee deliberates on matters related to Group-wide credit portfolios. The SMBC Group companies follow the fundamental principles established by the SMBC Group to assess and manage credit risk. Each of SMBC 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.

The following chart shows the credit risk management system of SMBC, the SMBC 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 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 of SMBC within each business unit conduct credit risk management for loans handled by its unit and manage portfolios of its unit. 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 SMBC Group company, which engages in related services to efficiently reduce the amount of NPLs, including through the sale of loans.

The Internal Audit Unit of SMBC, 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, the SMBC Group 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***

At SMBC, 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 SMBC 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 of SMBC 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*

At SMBC, 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, the Corporate Risk Management Department of the Company 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***

As the SMBC Group's equity capital may be materially impaired in the event that the credit concentration risk becomes apparent, the Credit & Investment Planning Department of the Company 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, SMBC's Credit 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, 2018 and 2017.

|                                                                                                      | At March 31,  |              |
|------------------------------------------------------------------------------------------------------|---------------|--------------|
|                                                                                                      | 2018          | 2017         |
|                                                                                                      | (In millions) |              |
| <b>Credit risk exposures relating to assets on the consolidated statement of financial position:</b> |               |              |
| Deposits with banks                                                                                  | ¥ 53,992,931  | ¥ 46,207,027 |
| Call loans and bills bought                                                                          | 1,881,880     | 1,872,209    |
| Reverse repurchase agreements and cash collateral on securities borrowed                             | 8,491,703     | 8,924,385    |
| Trading assets                                                                                       | 2,841,148     | 3,339,928    |
| Derivative financial instruments                                                                     | 3,885,271     | 4,063,982    |
| Financial assets at fair value through profit or loss                                                | 1,528,921     | 1,582,957    |
| Investment securities:                                                                               |               |              |
| Held-to-maturity investments                                                                         | 372,459       | 1,173,419    |
| Available-for-sale financial assets                                                                  | 14,282,706    | 12,123,770   |
| Loans and advances                                                                                   | 85,129,070    | 95,273,845   |
| Other financial assets                                                                               | 3,598,642     | 3,424,591    |
| Financial assets included in assets held for sale                                                    | 3,099,888     | —            |
| <b>Credit risk exposures relating to off-balance sheet items<sup>(1)</sup>:</b>                      |               |              |
| Loan commitments                                                                                     | 60,107,128    | 62,357,210   |
| Financial guarantees and other credit-related contingent liabilities                                 | 8,426,245     | 7,924,711    |
| Total                                                                                                | ¥247,637,992  | ¥248,268,034 |

(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 SMBC 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 SMBC 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 SMBC 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 SMBC Group’s business practice. At the time of the primary lending decision, the SMBC 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 SMBC 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, 2018 and 2017. 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.

|                                                                                    | At March 31,  |             |
|------------------------------------------------------------------------------------|---------------|-------------|
|                                                                                    | 2018          | 2017        |
|                                                                                    | (In millions) |             |
| Loans and advances for borrowers requiring caution and impaired loans and advances | ¥ 1,965,681   | ¥ 3,212,447 |
| Financial effect of collateral and other credit enhancements                       | 959,015       | 1,422,996   |

### *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, 2018 and 2017 is shown below. The concentration by geographical sector is measured based on the domicile of the borrower.

#### *Geographical sector*

|                                                                              | At March 31,  |              |
|------------------------------------------------------------------------------|---------------|--------------|
|                                                                              | 2018          | 2017         |
|                                                                              | (In millions) |              |
| Domestic                                                                     | ¥ 57,830,627  | ¥ 68,020,094 |
| Foreign:                                                                     |               |              |
| Americas                                                                     | 11,221,244    | 11,417,162   |
| Europe                                                                       | 4,949,471     | 5,031,197    |
| Asia                                                                         | 8,423,747     | 8,412,109    |
| Others                                                                       | 3,434,838     | 3,310,164    |
| Total foreign                                                                | 28,029,300    | 28,170,632   |
| Gross loans and advances                                                     | 85,859,927    | 96,190,726   |
| Adjust: Unearned income, unamortized premiums—net and deferred loan fees—net | (239,181)     | (236,425)    |
| Less: Allowance for loan losses                                              | (491,676)     | (680,456)    |
| Net loans and advances                                                       | ¥ 85,129,070  | ¥ 95,273,845 |

*Industry sector*

|                                                                                        | At March 31,  |             |
|----------------------------------------------------------------------------------------|---------------|-------------|
|                                                                                        | 2018          | 2017        |
|                                                                                        | (In millions) |             |
| <b>Domestic:</b>                                                                       |               |             |
| Manufacturing . . . . .                                                                | ¥ 7,961,620   | ¥ 9,578,147 |
| Agriculture, forestry, fisheries and mining . . . . .                                  | 145,957       | 174,021     |
| Construction . . . . .                                                                 | 947,765       | 1,151,989   |
| Transportation, communications and public enterprises . . . . .                        | 5,424,054     | 5,365,225   |
| Wholesale and retail . . . . .                                                         | 5,288,767     | 5,721,005   |
| Finance and insurance . . . . .                                                        | 2,777,862     | 2,844,546   |
| Real estate and goods rental and leasing . . . . .                                     | 9,017,664     | 10,101,846  |
| Services . . . . .                                                                     | 4,255,228     | 4,885,247   |
| Municipalities . . . . .                                                               | 1,000,286     | 1,216,211   |
| Lease financing . . . . .                                                              | 14,629        | 2,706,641   |
| Consumer <sup>(1)</sup> . . . . .                                                      | 16,363,489    | 19,096,755  |
| Others . . . . .                                                                       | 4,633,306     | 5,178,461   |
| Total domestic . . . . .                                                               | 57,830,627    | 68,020,094  |
| <b>Foreign:</b>                                                                        |               |             |
| Public sector . . . . .                                                                | 372,008       | 299,746     |
| Financial institutions . . . . .                                                       | 4,496,646     | 4,588,001   |
| Commerce and industry . . . . .                                                        | 21,023,885    | 21,041,905  |
| Lease financing . . . . .                                                              | 357,660       | 404,658     |
| Others . . . . .                                                                       | 1,779,101     | 1,836,322   |
| Total foreign . . . . .                                                                | 28,029,300    | 28,170,632  |
| Gross loans and advances . . . . .                                                     | 85,859,927    | 96,190,726  |
| Adjust: Unearned income, unamortized premiums—net and deferred loan fees—net . . . . . | (239,181)     | (236,425)   |
| Less: Allowance for loan losses . . . . .                                              | (491,676)     | (680,456)   |
| Net loans and advances . . . . .                                                       | ¥85,129,070   | ¥95,273,845 |

(1) The balance in Consumer mainly consists of housing loans. The housing loan balances amounted to ¥11,482,678 million and ¥13,766,771 million at March 31, 2018 and 2017, 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, 2018 and 2017. These loans and advances are included in the preceding tables.

Structured finance:

|                                    | At March 31,  |             |
|------------------------------------|---------------|-------------|
|                                    | 2018          | 2017        |
|                                    | (In millions) |             |
| Real estate finance . . . . .      | ¥ 2,421,408   | ¥ 2,222,530 |
| Project finance . . . . .          | 3,976,222     | 3,859,424   |
| Other structured finance . . . . . | 374,430       | 370,160     |
| Total structured finance . . . . . | ¥ 6,772,060   | ¥ 6,452,114 |

Consumer:

|                                    | At March 31,  |             |
|------------------------------------|---------------|-------------|
|                                    | 2018          | 2017        |
|                                    | (In millions) |             |
| Secured loans <sup>(1)</sup> ..... | ¥12,255,845   | ¥14,994,042 |
| Unsecured loans .....              | 4,107,644     | 4,102,713   |
| Total consumer .....               | ¥16,363,489   | ¥19,096,755 |

(1) The secured loans and advances mainly represent housing loans. The housing loan balances amounted to ¥11,482,678 million and ¥13,766,771 million at March 31, 2018 and 2017, respectively.

***Loans and advances by credit quality category***

Loans and advances are summarized as follows:

|                                                                                    | At March 31,  |             |
|------------------------------------------------------------------------------------|---------------|-------------|
|                                                                                    | 2018          | 2017        |
|                                                                                    | (In millions) |             |
| Neither past due nor impaired .....                                                | ¥84,856,335   | ¥94,825,134 |
| Past due but not impaired .....                                                    | 124,724       | 136,904     |
| Impaired <sup>(1)</sup> .....                                                      | 878,868       | 1,228,688   |
| Gross loans and advances .....                                                     | 85,859,927    | 96,190,726  |
| Adjust: Unearned income, unamortized premiums—net and deferred loan fees—net ..... | (239,181)     | (236,425)   |
| Less: Allowance for loan losses .....                                              | (491,676)     | (680,456)   |
| Net loans and advances .....                                                       | ¥85,129,070   | ¥95,273,845 |

(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, 2018 and 2017. 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 SMBC 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, 2018                                               |               |             |                                                      |             |                   |           |             |
|-----------------------------------------------------------------|---------------|-------------|------------------------------------------------------|-------------|-------------------|-----------|-------------|
|                                                                 | 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 . . . . .                                         | ¥ 4,275,861   | ¥ 2,190,117 | ¥ —                                                  | ¥ 1,196,566 | ¥ 199,616         | ¥ 22,681  | ¥ 7,884,841 |
| Agriculture, forestry, fisheries and mining . . . .             | 81,900        | 42,892      | 13,973                                               | 207         | 599               | —         | 139,571     |
| Construction . . . . .                                          | 319,394       | 468,222     | —                                                    | 119,439     | 26,779            | 459       | 934,293     |
| Transportation, communications and public enterprises . . . . . | 4,069,995     | 1,066,246   | 86,932                                               | 133,132     | 46,657            | 148       | 5,403,110   |
| Wholesale and retail . . . . .                                  | 2,333,434     | 2,399,747   | —                                                    | 297,583     | 155,584           | 1,421     | 5,187,769   |
| Finance and insurance . . . . .                                 | 1,801,410     | 349,934     | 2,785                                                | 618,935     | 1,630             | 5         | 2,774,699   |
| Real estate and goods rental and leasing . . . . .              | 5,696,289     | 3,082,764   | 13,696                                               | 95,634      | 87,218            | 7         | 8,975,608   |
| Services . . . . .                                              | 1,599,011     | 2,355,545   | 37,693                                               | 94,218      | 96,498            | 115       | 4,183,080   |
| Municipalities . . . . .                                        | —             | —           | 1,000,286                                            | —           | —                 | —         | 1,000,286   |
| Lease financing . . . . .                                       | —             | —           | —                                                    | 14,629      | —                 | —         | 14,629      |
| Consumer <sup>(1)</sup> . . . . .                               | —             | 234         | —                                                    | 15,900,425  | 1,669             | 73,180    | 15,975,508  |
| Others . . . . .                                                | 53,633        | 2,057,571   | 1,685,694                                            | 728,206     | 69,005            | 680       | 4,594,789   |
| Total domestic . . . . .                                        | 20,230,927    | 14,013,272  | 2,841,059                                            | 19,198,974  | 685,255           | 98,696    | 57,068,183  |
|                                                                 | G 1-3         | G 4-6       | —                                                    | Other       | G 7               | Other     | Total       |
| <b>Foreign:</b>                                                 |               |             |                                                      |             |                   |           |             |
| Public sector . . . . .                                         | 191,678       | 81,448      | —                                                    | 97,890      | 30                | 941       | 371,987     |
| Financial institutions . . . . .                                | 2,381,927     | 338,659     | —                                                    | 1,752,693   | —                 | 7,891     | 4,481,170   |
| Commerce and industry . . .                                     | 14,009,273    | 2,425,819   | —                                                    | 4,114,066   | 222,395           | 53,793    | 20,825,346  |
| Lease financing . . . . .                                       | 23,290        | —           | —                                                    | 330,406     | —                 | 3,964     | 357,660     |
| Others . . . . .                                                | 1,194,334     | 161,795     | —                                                    | 383,463     | 9,964             | 2,433     | 1,751,989   |
| Total foreign . . . . .                                         | 17,800,502    | 3,007,721   | —                                                    | 6,678,518   | 232,389           | 69,022    | 27,788,152  |
| Total . . . . .                                                 | ¥38,031,429   | ¥17,020,993 | ¥2,841,059                                           | ¥25,877,492 | ¥ 917,644         | ¥ 167,718 | ¥84,856,335 |

(1) The balance in the grade category of "Other" in Consumer includes housing loans, which amounted to ¥11,302,350 million and ¥51,189 million for the borrower category of Normal and Requiring Caution, respectively.

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) |             |                                                      |             |                   |           |             |
| Domestic:                                                       |               |             |                                                      |             |                   |           |             |
| 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  |
|                                                                 | G 1-3         | G 4-6       | —                                                    | Other       | G 7               | Other     | Total       |
| Foreign:                                                        |               |             |                                                      |             |                   |           |             |
| 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.

*Loans and advances past due but not impaired*

The SMBC 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, 2018 and 2017 were ¥163,902 million and ¥167,159 million, respectively. Those aggregate balances therefore include individual loans and advances which are not past due. Thus, in the tables below, the SMBC 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, 2018 and 2017. 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, 2018                                           |                           |                        |                        |           |
|-------------------------------------------------------------|---------------------------|------------------------|------------------------|-----------|
|                                                             | Past due up to<br>1 month | Past due<br>1-2 months | Past due<br>2-3 months | Total     |
|                                                             | (In millions)             |                        |                        |           |
| <b>Domestic:</b>                                            |                           |                        |                        |           |
| Manufacturing . . . . .                                     | ¥ 476                     | ¥ 50                   | ¥ —                    | ¥ 526     |
| Agriculture, forestry, fisheries and mining . . . . .       | —                         | —                      | —                      | —         |
| Construction . . . . .                                      | 1                         | 10                     | 51                     | 62        |
| Transportation, communications and public enterprises . . . | 45                        | —                      | —                      | 45        |
| Wholesale and retail . . . . .                              | 2,240                     | 318                    | 21                     | 2,579     |
| Finance and insurance . . . . .                             | 65                        | 76                     | —                      | 141       |
| Real estate and goods rental and leasing . . . . .          | 73                        | 44                     | —                      | 117       |
| Services . . . . .                                          | 245                       | —                      | —                      | 245       |
| Lease financing . . . . .                                   | —                         | —                      | —                      | —         |
| Consumer . . . . .                                          | 55,020                    | 10,298                 | 3,378                  | 68,696    |
| Others . . . . .                                            | 2,791                     | 44                     | 21                     | 2,856     |
| Total domestic . . . . .                                    | 60,956                    | 10,840                 | 3,471                  | 75,267    |
| <b>Foreign:</b>                                             |                           |                        |                        |           |
| Financial institutions . . . . .                            | 11,934                    | 165                    | 1,548                  | 13,647    |
| Commerce and industry . . . . .                             | 14,822                    | 2,705                  | 13,554                 | 31,081    |
| Others . . . . .                                            | 2,402                     | 1,676                  | 651                    | 4,729     |
| Total foreign . . . . .                                     | 29,158                    | 4,546                  | 15,753                 | 49,457    |
| Total . . . . .                                             | ¥ 90,114                  | ¥ 15,386               | ¥ 19,224               | ¥ 124,724 |

| At March 31, 2017                                               |                           |                        |                        |           |
|-----------------------------------------------------------------|---------------------------|------------------------|------------------------|-----------|
|                                                                 | Past due up to<br>1 month | Past due<br>1-2 months | Past due<br>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 |

### *Impaired loans and advances*

The following table shows the impaired loans and advances, by geography and by industry, at March 31, 2018 and 2017.

|                                                                    | At March 31,  |           |
|--------------------------------------------------------------------|---------------|-----------|
|                                                                    | 2018          | 2017      |
|                                                                    | (In millions) |           |
| <b>Domestic:</b>                                                   |               |           |
| Manufacturing                                                      | ¥ 76,253      | ¥ 127,581 |
| Agriculture, forestry, fisheries and mining                        | 6,386         | 2,251     |
| Construction                                                       | 13,410        | 28,082    |
| Transportation, communications and public enterprises              | 20,899        | 32,880    |
| Wholesale and retail                                               | 98,419        | 122,719   |
| Finance and insurance                                              | 3,022         | 4,135     |
| Real estate and goods rental and leasing                           | 41,939        | 147,516   |
| Services                                                           | 71,903        | 112,573   |
| Lease financing                                                    | —             | 7,969     |
| Consumer                                                           | 319,285       | 363,305   |
| Others                                                             | 35,661        | 41,246    |
| Total domestic                                                     | 687,177       | 990,257   |
| <b>Foreign:</b>                                                    |               |           |
| Public sector                                                      | 21            | 25        |
| Financial institutions                                             | 1,829         | 2,371     |
| Commerce and industry                                              | 167,458       | 199,983   |
| Lease financing                                                    | —             | 12,162    |
| Others                                                             | 22,383        | 23,890    |
| Total foreign                                                      | 191,691       | 238,431   |
| Total impaired loans and advances before allowance for loan losses | 878,868       | 1,228,688 |
| Less: Allowance for loan losses for impaired loans and advances    | (369,386)     | (532,451) |
| Net impaired loans and advances                                    | ¥ 509,482     | ¥ 696,237 |

### *Renegotiated loans and advances*

The following table shows loans and advances at March 31, 2018 and 2017 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 SMBC 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,  |           |
|---------------------------------|---------------|-----------|
|                                 | 2018          | 2017      |
|                                 | (In millions) |           |
| Renegotiated loans and advances | ¥ 292,466     | ¥ 463,092 |

### *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, 2018 and 2017, excluding equity instruments. Collateral is generally not obtained directly from the issuers.

| At March 31, 2018   |                |                                                       |                              |                                     |              |
|---------------------|----------------|-------------------------------------------------------|------------------------------|-------------------------------------|--------------|
|                     | Trading assets | Financial assets at fair value through profit or loss | Held-to-maturity investments | Available-for-sale financial assets | Total        |
|                     | (In millions)  |                                                       |                              |                                     |              |
| AAA .....           | ¥ 190,650      | ¥ —                                                   | ¥ —                          | ¥ 4,865,723                         | ¥ 5,056,373  |
| AA- to AA+ .....    | 2,399,644      | 1,518,748                                             | 372,459                      | 8,538,879                           | 12,829,730   |
| A- to A+ .....      | 192,943        | —                                                     | —                            | 276,042                             | 468,985      |
| Lower than A- ..... | 56,458         | —                                                     | —                            | 532,626                             | 589,084      |
| Unrated .....       | 1,453          | 10,173                                                | —                            | 69,436                              | 81,062       |
| Total .....         | ¥ 2,841,148    | ¥ 1,528,921                                           | ¥ 372,459                    | ¥ 14,282,706                        | ¥ 19,025,234 |

Impaired available-for-sale financial assets with a carrying amount of ¥154 million at March 31, 2018 are included in the table above.

| 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 .....         | ¥ 3,339,928    | ¥ 1,582,957                                           | ¥ 1,173,419                  | ¥ 12,123,770                        | ¥ 18,220,074 |

Impaired available-for-sale financial assets with a carrying amount of ¥526 million at March 31, 2017 are included in the table above.

### *Credit risk from derivative financial instruments*

The SMBC 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 SMBC Group (i.e., assets where their fair value is positive).

The SMBC 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 SMBC 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 SMBC 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 SMBC Group is in a position to address its liquidity obligations through monitoring the liquidity gap between assets and liabilities, and by maintaining highly liquid supplementary funding resources.

On the basis of the SMBC Group-wide basic policies for risk management, the SMBC Group has a quantitative management process to control market and liquidity risks on an SMBC Group-wide basis by setting allowable risk limits by company. The SMBC Group at least annually reviews and identifies which companies primarily carry the market and liquidity risks within the SMBC Group. The SMBC Group sets permissible levels and upper limits of risk for each identified company in consideration of those companies' business plans. The SMBC 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 which clearly separating front, middle and back office operations, and establishes a control system of mutual checks and balances.

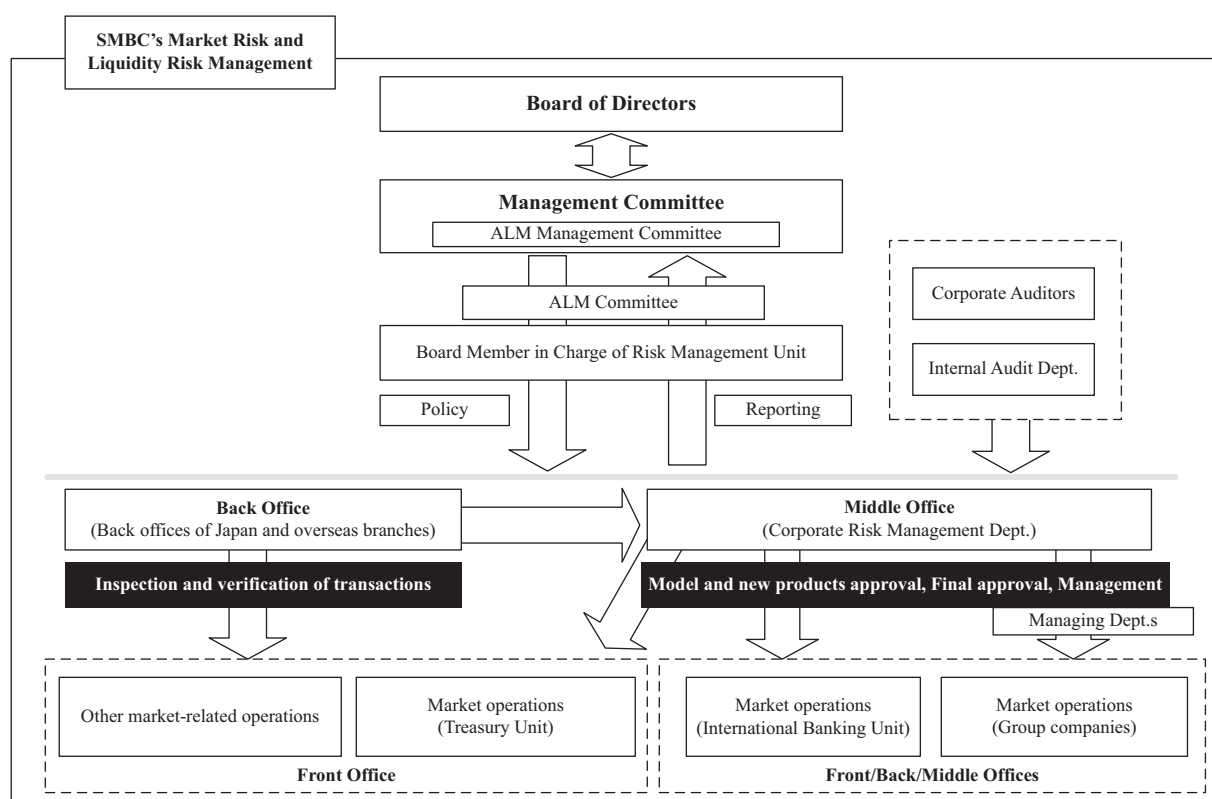
### ***Framework for market and liquidity risk management***

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. The Corporate Risk Management Department, which is independent of the business units that directly handle market transactions, manages market and liquidity risks in an integrated manner. The Corporate Risk Management Department not only monitors the current risk situations but also reports regularly to the Management Committee and the board of directors.

Additionally, the Asset Liability Management ("ALM") Committee meets on a quarterly basis to examine reports on the state of market risk management and to discuss the Group's ALM operation policies. Furthermore, SMBC's 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 discuss SMBC's ALM operations.

The Internal Audit Unit of SMBC also 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 SMBC Group manages market risk derived from trading activities and non-trading activities, including strategic equity investment and other transactions within the risk capital limit which is determined by taking into account SMFG's shareholders' equity and other principal indicators of the financial position. The SMBC Group also establishes an upper limit on VaR and losses within the risk capital limits.

The SMBC Group's market risk can be divided into various factors: interest rates, foreign exchange rates, equity prices and option risks. The SMBC 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 SMBC 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 SMBC 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 SMBC 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 by 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 SMBC Group's VaR by risk category and these figures are prepared based on the internal reporting provided to management. The SMBC 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 SMBC Group's customers.

(a) VaR for Trading Activity

|                                                  | Interest rate<br>risk | Foreign<br>exchange risk | Equities and<br>commodities<br>risk | Others | Total <sup>(1)</sup> |
|--------------------------------------------------|-----------------------|--------------------------|-------------------------------------|--------|----------------------|
|                                                  | (In billions)         |                          |                                     |        |                      |
| <b>For the fiscal year ended March 31, 2018:</b> |                       |                          |                                     |        |                      |
| SMBC Consolidated                                |                       |                          |                                     |        |                      |
| Maximum .....                                    | ¥ 3.2                 | ¥ 4.3                    | ¥ 3.9                               | ¥ 3.6  | 11.2                 |
| Minimum .....                                    | 1.3                   | 1.2                      | 0.0                                 | 1.4    | 3.5                  |
| Daily average .....                              | 2.1                   | 2.4                      | 1.5                                 | 2.3    | 7.2                  |
| At March 31, 2018 .....                          | 2.6                   | 3.6                      | 0.0                                 | 3.2    | 8.1                  |
| SMFG Consolidated                                |                       |                          |                                     |        |                      |
| Maximum .....                                    | ¥ 30.9                | ¥ 5.0                    | ¥ 11.4                              | ¥ 3.6  | 39.5                 |
| Minimum .....                                    | 6.7                   | 1.5                      | 4.3                                 | 1.4    | 14.5                 |
| Daily average .....                              | 12.3                  | 3.0                      | 6.3                                 | 2.3    | 22.1                 |
| At March 31, 2018 .....                          | 11.3                  | 4.3                      | 4.3                                 | 3.2    | 21.5                 |
|                                                  | Interest rate<br>risk | Foreign<br>exchange risk | Equities and<br>commodities<br>risk | Others | Total <sup>(1)</sup> |
|                                                  | (In billions)         |                          |                                     |        |                      |

**For the fiscal year ended March 31, 2017:**

|                         |        |       |       |       |      |
|-------------------------|--------|-------|-------|-------|------|
| 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 |

(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 SMBC 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<br/>risk</u> | <u>Foreign<br/>exchange risk</u> | <u>Equities and<br/>commodities<br/>risk</u> | <u>Others</u> | <u>Total<sup>(1)</sup></u> |
|--------------------------------------------------|---|-------------------------------|----------------------------------|----------------------------------------------|---------------|----------------------------|
|                                                  |   |                               |                                  | (In billions)                                |               |                            |
| <b>For the fiscal year ended March 31, 2018:</b> |   |                               |                                  |                                              |               |                            |
| SMBC Consolidated                                |   |                               |                                  |                                              |               |                            |
| Maximum .....                                    | ¥ | 31.5                          | ¥ 0.0                            | ¥ 39.9                                       | ¥ 0.0         | 54.5                       |
| Minimum .....                                    |   | 25.2                          | 0.0                              | 21.5                                         | 0.0           | 38.0                       |
| Daily average .....                              |   | 27.4                          | 0.0                              | 30.4                                         | 0.0           | 44.4                       |
| At March 31, 2018 .....                          |   | 31.3                          | 0.0                              | 28.1                                         | 0.0           | 45.7                       |
| SMFG Consolidated                                |   |                               |                                  |                                              |               |                            |
| Maximum .....                                    | ¥ | 34.0                          | ¥ 0.0                            | ¥ 39.9                                       | ¥ 0.0         | 57.0                       |
| Minimum .....                                    |   | 27.8                          | 0.0                              | 21.6                                         | 0.0           | 40.8                       |
| Daily average .....                              |   | 30.2                          | 0.0                              | 30.5                                         | 0.0           | 47.2                       |
| At March 31, 2018 .....                          |   | 33.7                          | 0.0                              | 28.1                                         | 0.0           | 48.2                       |
|                                                  |   | <u>Interest rate<br/>risk</u> | <u>Foreign<br/>exchange risk</u> | <u>Equities and<br/>commodities<br/>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                       |

(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><br>(In billions) |
|--------------------------------------------------|---------------------------------------|
| <b>For the fiscal year ended March 31, 2018:</b> |                                       |
| SMBC Consolidated                                |                                       |
| Maximum .....                                    | ¥ 1,622.9                             |
| Minimum .....                                    | 1,309.8                               |
| Daily average .....                              | 1,456.6                               |
| At March 31, 2018 .....                          | 1,389.4                               |
| SMFG Consolidated                                |                                       |
| Maximum .....                                    | ¥ 1,855.9                             |
| Minimum .....                                    | 1,488.1                               |
| Daily average .....                              | 1,664.2                               |
| At March 31, 2018 .....                          | 1,603.6                               |
|                                                  | <u>Equities risk</u><br>(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                               |

*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 SMBC Group 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 SMBC Group adopts various indices to measure and monitor the sensitivity of interest rates, including delta, gamma and vega risks. The SMBC 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 SMBC 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. In addition, as previously addressed, the SMBC 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.

Based on the new standards for interest rate risk in the banking book issued by the Basel Committee on Banking Supervision (“BCBS”) in April 2016, the FSA revised the related regulatory guidelines pertaining to monitoring of interest rate risks in the banking book in December 2017. The revised disclosure requirements with respect to the changes in economic value of equity (“ΔEVE”) in the banking book as a result of interest rate shocks have been applied from March 31, 2018. ΔEVE is defined as a decline in economic value as a result of an interest rate shock. It is calculated by multiplying the interest rate sensitivity (excluding credit spread) and interest rate change. The FSA implements a “materiality test” to identify banks taking excessive interest rate risks. Under the materiality test, the FSA monitors the ratio of ΔEVE to Tier 1 capital based on a set of prescribed interest rate shock scenarios. The threshold applied by the FSA is 15% and the ratios for SMBC and SMFG on a consolidated basis at March 31, 2018 were 4.8% and 4.2%, respectively.

Under the related regulatory guidelines prior to the revisions pertaining to monitoring of interest rate risks in the banking book published by FSA in December 2017, a bank would fall into the category of “outlier bank,” as stipulated under Pillar 2 of the Basel Capital Accord, in the event the economic value of that bank declines by more than 20% of total capital as a result of interest rate shocks. This ratio, known as the outlier ratio, was 1.5% 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.

|                                      | <b>At March 31, 2017</b>                 |       |
|--------------------------------------|------------------------------------------|-------|
|                                      | <b>(In billions, except percentages)</b> |       |
| SMBC Consolidated                    |                                          |       |
| Total                                | ¥                                        | 150.5 |
| Impact of yen interest rates         |                                          | 77.2  |
| Impact of U.S. dollar interest rates |                                          | 50.8  |
| Impact of euro interest rates        |                                          | 8.8   |
| Percentage of total capital          |                                          | 1.5%  |

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 SMBC 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 SMBC 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 SMBC Group has been reducing its strategic equity investments, and the balance is within a permitted level, which is less than 100% of the SMBC Group's Tier 1 Capital.

***Liquidity risk management methods***

The SMBC Group regards liquidity risk as one of the major risks. The SMBC Group manages liquidity risk based on a framework consisting of setting upper limits for "funding gaps," maintaining high-quality liquid assets in line with the SMBC Group's risk appetite and establishing contingency plans.

A funding gap is defined as a maturity mismatch between a source of funds and the use of funds. The SMBC Group 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 an SMBC Group company 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 SMBC Group 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. The SMBC Group also monitors quantitative indicators of the levels of risk exposure to be assumed, such as Liquidity Coverage Ratio. In addition, SMBC, the SMBC Group's major banking subsidiary, establishes quantitative alert system based on early warning indicators to detect liquidity risks promptly and systematically. Additionally, funding liquidity is maintained by holding assets, such as central bank reserves and government bonds which can be immediately converted to cash, in line with the SMBC Group's risk appetite, in order to smoothly raise the required funds even during market disruption.

Furthermore, contingency plans are developed at each SMBC Group company 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, 2018 and 2017*

The following tables show a maturity analysis of the contractual undiscounted cash flows for financial liabilities at March 31, 2018 and 2017. The amount of interest on debt instruments is not included in the maturity tables below due to its insignificance.

| At March 31, 2018                                                      |              |                             |                                                     |                                                    |                                                      |                       |              |
|------------------------------------------------------------------------|--------------|-----------------------------|-----------------------------------------------------|----------------------------------------------------|------------------------------------------------------|-----------------------|--------------|
|                                                                        | 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 . . . . .                                                     | ¥ 79,239,076 | ¥ 31,907,636                | ¥ 12,755,005                                        | ¥ 3,189,790                                        | ¥ 701,374                                            | ¥ 654,717             | ¥128,447,598 |
| Call money and bills sold . . . . .                                    | 47,942       | 1,141,653                   | 1,334                                               | —                                                  | —                                                    | —                     | 1,190,929    |
| Repurchase agreements and cash collateral on securities lent . . . . . | 20,833       | 12,001,760                  | —                                                   | —                                                  | —                                                    | —                     | 12,022,593   |
| Trading liabilities . . . . .                                          | 2,143,899    | —                           | —                                                   | —                                                  | —                                                    | —                     | 2,143,899    |
| Borrowings . . . . .                                                   | 61,205       | 435,708                     | 6,765,228                                           | 601,326                                            | 652,481                                              | 2,126,169             | 10,642,117   |
| Debt securities in issue . . . . .                                     | —            | 2,407,601                   | 950,334                                             | 1,818,271                                          | 2,185,578                                            | 3,227,737             | 10,589,521   |
| Lease payable . . . . .                                                | —            | 683                         | 1,884                                               | 2,999                                              | 1,665                                                | 3,086                 | 10,317       |
| Other financial liabilities . . . . .                                  | 2,554,069    | 4,129,478                   | 4,342                                               | 139                                                | —                                                    | 3,014                 | 6,691,042    |
| <b>Off balance sheet items:</b>                                        |              |                             |                                                     |                                                    |                                                      |                       |              |
| Loan commitments . . . . .                                             | 60,107,128   | —                           | —                                                   | —                                                  | —                                                    | —                     | 60,107,128   |
| Financial guarantee contracts . . . . .                                | 8,426,245    | —                           | —                                                   | —                                                  | —                                                    | —                     | 8,426,245    |
| Total non-derivative financial instruments . . . . .                   | ¥152,600,397 | ¥ 52,024,519                | ¥ 20,478,127                                        | ¥ 5,612,525                                        | ¥ 3,541,098                                          | ¥ 6,014,723           | ¥240,271,389 |
| <b>Derivative financial instruments</b> . . . . .                      | ¥ 3,498,016  | ¥ —                         | ¥ —                                                 | ¥ —                                                | ¥ —                                                  | ¥ —                   | ¥ 3,498,016  |
| At March 31, 2017                                                      |              |                             |                                                     |                                                    |                                                      |                       |              |
|                                                                        | 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 . . . . .                                                     | ¥ 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  |

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, 2018 and 2017*

The following table presents the balance of loans and advances, and deposits at March 31, 2018 and 2017. The balance of deposits, which was mainly composed of individual customer deposits at March 31, 2018 and 2017, exceeded the balance of loans and advances at the same time due to the stable deposit base in Japan.

|                          | At March 31,  |              |
|--------------------------|---------------|--------------|
|                          | 2018          | 2017         |
|                          | (In millions) |              |
| Loans and advances ..... | ¥ 85,129,070  | ¥ 95,273,845 |
| Deposits .....           | 128,461,527   | 130,295,290  |

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,  |              |
|--------------------------------------------|---------------|--------------|
|                                            | 2018          | 2017         |
|                                            | (In millions) |              |
| <b>Domestic offices:</b>                   |               |              |
| Non-interest-bearing demand deposits ..... | ¥ 20,370,064  | ¥ 18,737,973 |
| Interest-bearing demand deposits .....     | 49,580,166    | 48,879,089   |
| Deposits at notice .....                   | 855,978       | 1,066,201    |
| Time deposits .....                        | 18,185,591    | 22,269,409   |
| Negotiable certificates of deposit .....   | 5,408,021     | 6,021,236    |
| Others .....                               | 7,338,619     | 7,290,869    |
| Total domestic offices .....               | 101,738,439   | 104,264,777  |
| <b>Foreign offices:</b>                    |               |              |
| Non-interest-bearing demand deposits ..... | 1,241,450     | 1,115,579    |
| Interest-bearing demand deposits .....     | 2,574,099     | 2,402,906    |
| Deposits at notice .....                   | 9,499,686     | 9,264,068    |
| Time deposits .....                        | 7,469,541     | 7,256,466    |
| Negotiable certificates of deposit .....   | 5,812,264     | 5,859,702    |
| Others .....                               | 126,048       | 131,792      |
| Total foreign offices .....                | 26,723,088    | 26,030,513   |
| Total deposits .....                       | ¥128,461,527  | ¥130,295,290 |

## Capital Management

The SMBC Group manages its capital by taking into consideration regulatory compliance and business development.

The SMBC 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 SMBC Group, the Company 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 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 SMBC 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 was also 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 (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 Financial Stability Board ("FSB") as Global Systemically Important Banks ("G-SIBs"), which includes the SMBC 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 SMBC 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 SMBC Group is currently required to maintain 0.75% 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 SMBC 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 SMBC Group sets a target minimum total capital ratio of 8.0% on the SMBC 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 SMBC Group’s total capital ratio, total capital and risk-weighted assets under Japanese GAAP at March 31, 2018 and 2017 based on the Basel III rules.

|                                                                                                     | At March 31,                      |            |
|-----------------------------------------------------------------------------------------------------|-----------------------------------|------------|
|                                                                                                     | 2018                              | 2017       |
|                                                                                                     | (In billions, except percentages) |            |
| SMFG Consolidated:                                                                                  |                                   |            |
| Total risk-weighted capital ratio . . . . .                                                         | 19.36%                            | 16.93%     |
| Tier 1 risk-weighted capital ratio . . . . .                                                        | 16.69%                            | 14.07%     |
| Common Equity Tier 1 risk-weighted capital ratio . . . . .                                          | 14.50%                            | 12.17%     |
| Total capital (Common Equity Tier 1 capital + Additional Tier 1 capital + Tier 2 capital) . . . . . | ¥ 12,304.1                        | ¥ 11,973.7 |
| Tier 1 capital (Common Equity Tier 1 capital + Additional Tier 1 capital) . . . .                   | 10,610.2                          | 9,946.2    |
| Common Equity Tier 1 capital . . . . .                                                              | 9,217.4                           | 8,608.5    |
| Risk-weighted assets . . . . .                                                                      | 63,540.3                          | 70,683.5   |
| The amount of minimum total capital requirements(1) . . . . .                                       | 5,083.2                           | 5,654.7    |

(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 SMBC 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 SMBC 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 SMBC 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,                        |           |
|---------------------------------------------------------------------------|-------------------------------------|-----------|
|                                                                           | 2018                                | 2017      |
|                                                                           | (In millions)                       |           |
| <b>Assets:</b>                                                            |                                     |           |
| Loans and advances . . . . .                                              | ¥ 222,890                           | ¥ 219,680 |
| Others . . . . .                                                          | 39,254                              | 13,807    |
| <b>Liabilities:</b>                                                       |                                     |           |
| Deposits . . . . .                                                        | ¥ 267,289                           | ¥ 143,801 |
| Others . . . . .                                                          | 29,049                              | 46,486    |
|                                                                           | For the fiscal year ended March 31, |           |
|                                                                           | 2018                                | 2017      |
|                                                                           | (In millions)                       |           |
| <b>Income statement:</b>                                                  |                                     |           |
| Income (interest income, fee and commission income, and others) . . . . . | ¥ 15,665                            | ¥ 17,433  |
| Expense (interest expense and others) . . . . .                           | 15,601                              | 17,411    |
|                                                                           |                                     | ¥ 34,135  |
|                                                                           |                                     | 19,169    |

Financial guarantees issued by the SMBC Group for its associates at March 31, 2018 and 2017 were ¥99,673 million and ¥63,597 million, respectively.

Loan commitments to associates and joint ventures at March 31, 2018 and 2017 were ¥125,015 million and ¥173,492 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 SMBC Group, directly or indirectly. The SMBC Group considers the members of the board of directors and corporate executive officers of SMFG to constitute key management personnel for the purpose of this disclosure required under IAS 24 “Related Party Disclosures.” Before SMFG transitioned to a company with three statutory committees on June 29, 2017, the SMBC Group considered the members of the board of directors of SMFG and SMBC to constitute the key management personnel.

|                              | At March 31,  |         |
|------------------------------|---------------|---------|
|                              | 2018          | 2017    |
|                              | (In millions) |         |
| <b>Assets:</b>               |               |         |
| Loans and advances . . . . . | ¥ 2           | ¥ 29    |
| <b>Liabilities:</b>          |               |         |
| Deposits . . . . .           | ¥ 1,612       | ¥ 2,878 |
| Others . . . . .             | 94            | 110     |

**Compensation of Key Management Personnel**

The following table presents the compensation expenses of key management personnel.

|                                        | For the fiscal year ended March 31, |         |         |
|----------------------------------------|-------------------------------------|---------|---------|
|                                        | 2018                                | 2017    | 2016    |
|                                        | (In millions)                       |         |         |
| Short-term employee benefits . . . . . | ¥ 1,135                             | ¥ 1,157 | ¥ 1,161 |
| Share-based compensation . . . . .     | 295                                 | 204     | 214     |

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, 2018, 2017 and 2016.

## 47 PRINCIPAL SUBSIDIARIES

### Principal Subsidiaries

The SMBC Group’s principal subsidiaries at March 31, 2018 are shown in the list below. The SMBC Group consolidates all entities that the SMBC Group controls. The SMBC Group controls an entity when the SMBC 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*

| <u>Company Name</u>                                               | <u>Proportion of<br/>Ownership<br/>Interest<sup>(1)</sup></u><br>(%) | <u>Proportion of<br/>Voting Rights<sup>(1)</sup></u><br>(%) | <u>Main Business</u>                                                                   |
|-------------------------------------------------------------------|----------------------------------------------------------------------|-------------------------------------------------------------|----------------------------------------------------------------------------------------|
| Sumitomo Mitsui Banking Corporation . . . . .                     | 100.0                                                                | 100.0                                                       | Commercial banking                                                                     |
| SMBC Trust Bank Ltd. . . . .                                      | 100.0                                                                | 100.0                                                       | Trust banking                                                                          |
| SMBC Guarantee Co., Ltd. . . . .                                  | 100.0                                                                | 100.0                                                       | Credit guarantee                                                                       |
| Sumitomo Mitsui Finance and Leasing<br>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                                                                             |
| 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                                                                       |
| SMBC 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<br>processing, management<br>consulting and economic research |
| Sumitomo Mitsui Asset Management<br>Company, Limited . . . . .    | 60.0                                                                 | 60.0                                                        | Investment advisory and<br>investment trust management                                 |
| SAKURA KCS Corporation . . . . .                                  | 47.4                                                                 | 47.4                                                        | System engineering and data<br>processing                                              |
| NCore Co., Ltd. . . . .                                           | 51.0                                                                 | 51.0                                                        | Data processing service and<br>consulting                                              |
| SMBC Venture Capital Co., Ltd. . . . .                            | 40.0                                                                 | 40.0                                                        | Venture capital                                                                        |
| SMBC Consulting Co., Ltd. . . . .                                 | 100.0                                                                | 100.0                                                       | Management consulting and<br>information services                                      |
| Japan Pension Navigator Co., Ltd. . . . .                         | 69.7                                                                 | 69.7                                                        | Operational management of<br>defined contribution pension<br>plans                     |

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

### *Principal foreign subsidiaries*

| <u>Company Name</u>                                           | <u>Country of<br/>Incorporation</u> | <u>Proportion of<br/>Ownership<br/>Interest<sup>(1)</sup></u><br>(%) | <u>Proportion<br/>of Voting<br/>Rights<sup>(1)</sup></u><br>(%) | <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.

SAKURA KCS Corporation and SMBC Venture Capital Co., Ltd. are accounted for as subsidiaries, despite the SMBC Group's holdings of less than 50% of the voting rights, because the SMBC 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 SMBC Group does not control some entities despite the fact that the SMBC Group holds more than 50% of their share capital, because the SMBC 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 SMBC Group's subsidiaries may be subject to restrictions on the ability to transfer funds to the Company 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 SMBC 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 SMBC Group engages in numerous transactions involving structured entities. These structured entities are primarily used to provide the SMBC 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 SMBC 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 SMBC 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, 2018 and 2017, the consolidated ABCP conduits had total assets of ¥807,780 million and ¥1,017,221 million, respectively. The total notional amounts of the liquidity and credit enhancement facilities provided by the SMBC Group to the consolidated ABCP conduits at March 31, 2018 and 2017 were ¥1,129,257 million and ¥1,345,987 million, respectively, all of which were undrawn.

The SMBC 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, 2018 and 2017.

### Unconsolidated Structured Entities

The following tables represent the carrying amounts of the SMBC 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, 2018 and 2017.

| At March 31, 2018                                                                              |                 |                  |                    |           |              |  |
|------------------------------------------------------------------------------------------------|-----------------|------------------|--------------------|-----------|--------------|--|
|                                                                                                | Securitizations | Investment funds | Structured finance | Others    | Total        |  |
|                                                                                                | (In millions)   |                  |                    |           |              |  |
| <b>Interests in unconsolidated structured entities recognized in:</b>                          |                 |                  |                    |           |              |  |
| Trading assets . . . . .                                                                       | ¥ 10,157        | ¥ 68,639         | ¥ —                | ¥ —       | ¥ 78,796     |  |
| Investment securities . . . . .                                                                | 64,113          | 1,055,971        | 51,018             | 479       | 1,171,581    |  |
| Loans and advances . . . . .                                                                   | 1,921,725       | —                | 5,202,253          | 400,549   | 7,524,527    |  |
| Assets held for sale . . . . .                                                                 | 32,755          | —                | 81,494             | —         | 114,249      |  |
| Total . . . . .                                                                                | ¥ 2,028,750     | ¥ 1,124,610      | ¥ 5,334,765        | ¥ 401,028 | ¥ 8,889,153  |  |
| <b>Maximum exposure to loss from interests in unconsolidated structured entities . . . . .</b> |                 |                  |                    |           |              |  |
|                                                                                                | ¥ 2,925,137     | ¥ 1,126,551      | ¥ 6,296,368        | ¥ 538,660 | ¥ 10,886,716 |  |

|                                                                                                | At March 31, 2017 |                  |                    |           |              |  |
|------------------------------------------------------------------------------------------------|-------------------|------------------|--------------------|-----------|--------------|--|
|                                                                                                | Securitizations   | 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 |  |

An interest in a structured entity refers to contractual and non-contractual involvement that exposes the SMBC 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 SMBC Group mainly to market risk, or CDS that are designed to transfer risk from the SMBC Group to a structured entity are not regarded as an interest in a structured entity since they do not expose the SMBC 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 SMBC Group's interests in unconsolidated structured entities represents the maximum amount of potential loss to which the SMBC Group is exposed through its involvement with unconsolidated structured entities. It is determined by the SMBC 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 SMBC 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, 2018 and 2017.

### ***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 SMBC 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 SMBC 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 SMBC 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 SMBC 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 SMBC Group provides loans and loan commitments to these entities.

### **Sponsored Unconsolidated Structured Entities with No Interest Held by the SMBC Group**

The SMBC Group sponsors certain structured entities in which it has no interest. The SMBC Group is deemed to be a sponsor of a structured entity when the SMBC 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 ¥23,901 million and ¥16,085 million for the fiscal years ended March 31, 2018 and 2017, respectively. The majority of the income was management fees included in "Fee and commission income" and was from investment funds managed by SMAM, the SMBC Group's asset management subsidiary. The carrying amount of assets transferred to these entities, which mainly consisted of investment funds, was ¥1,640,396 million and ¥1,479,572 million for the fiscal years ended March 31, 2018 and 2017, respectively.

## **49 ACQUISITIONS**

### **Fiscal Year Ended March 31, 2018**

#### ***American Railcar Leasing LLC***

On June 1, 2017, the SMBC Group, through SMBC Rail Services LLC, the Company's railcar operating leasing subsidiary, acquired all membership interests of American Railcar Leasing LLC ("ARL"), one of the leading railcar leasing companies in the United States. The SMBC Group pursued this acquisition based on its expectation that the railcar leasing business in the United States will experience further growth and high profitability due to stable demand for rail freight transportation, which is the core infrastructure for inland logistics. Through this acquisition, the SMBC Group aims to expand its railcar leasing business and services by further enhancing its fleet portfolio to appropriately meet diverse needs of clients in a wide range of industries.

The fair values of assets and liabilities of ARL at the date of acquisition and the consideration paid were as follows:

|                                                                                                                                           | <b>At June 1, 2017</b><br><b>(In millions)</b> |
|-------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|
| <b>Assets:</b>                                                                                                                            |                                                |
| Property, plant and equipment .....                                                                                                       | ¥ 304,257                                      |
| All other assets .....                                                                                                                    | 15,719                                         |
| Total assets .....                                                                                                                        | ¥ 319,976                                      |
| <b>Liabilities:</b>                                                                                                                       |                                                |
| Borrowings .....                                                                                                                          | ¥ 147,523                                      |
| All other liabilities .....                                                                                                               | 1,947                                          |
| Total liabilities .....                                                                                                                   | ¥ 149,470                                      |
| Net assets acquired .....                                                                                                                 | 170,506                                        |
| Goodwill .....                                                                                                                            | —                                              |
| Consideration .....                                                                                                                       | ¥ 170,506                                      |
| <b>Consideration:</b>                                                                                                                     |                                                |
| Cash .....                                                                                                                                | ¥ 170,506                                      |
| Total .....                                                                                                                               | ¥ 170,506                                      |
| Acquisition related costs recognized as an expense in "General and administrative expenses"<br>in the consolidated income statement ..... | ¥ 1,264                                        |

The revenue and profit or loss since the acquisition date to March 31, 2018 and pro forma financial information relating to ARL are immaterial to the consolidated financial statements.

The amount of cash consideration paid relating to ARL, net of cash and cash equivalents acquired amounting to ¥9,644 million, was ¥160,862 million.

### **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 SMBC 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:

|                                                                                                                                           | <b>At April 1, 2016</b> |
|-------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
|                                                                                                                                           | <b>(In millions)</b>    |
| <b>Assets:</b>                                                                                                                            |                         |
| Loans and advances .....                                                                                                                  | ¥ 470,538               |
| All other assets .....                                                                                                                    | 203,069                 |
| Total assets .....                                                                                                                        | ¥ 673,607               |
| <b>Liabilities:</b>                                                                                                                       |                         |
| Borrowings .....                                                                                                                          | ¥ 436,537               |
| All other liabilities .....                                                                                                               | 58,134                  |
| Total liabilities .....                                                                                                                   | ¥ 494,671               |
| 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 .....                                                                                                                       | ¥ 180,959               |
| <b>Consideration:</b>                                                                                                                     |                         |
| Cash .....                                                                                                                                | ¥ 180,959               |
| Total .....                                                                                                                               | ¥ 180,959               |
| Acquisition related costs recognized as an expense in “General and administrative expenses”<br>in the consolidated income statement ..... | ¥ 752                   |

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 SMBC 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 SMBC Group obtained control of SMAM. This acquisition was made for the purpose of enhancing the SMBC 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:

|                                                                                                                                  | <b>At July 29, 2016</b> |
|----------------------------------------------------------------------------------------------------------------------------------|-------------------------|
|                                                                                                                                  | <b>(In millions)</b>    |
| <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                                                                                                                     | ¥ 53,003                |
| <b>Liabilities</b>                                                                                                               | ¥ 14,995                |
| 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                                                                                                                    | ¥ 60,858                |
| <b>Consideration:</b>                                                                                                            |                         |
| Cash                                                                                                                             | ¥ 20,286                |
| Fair value of the equity interest in SMAM held before the acquisition                                                            | 40,572                  |
| Total                                                                                                                            | ¥ 60,858                |
| Acquisition related costs recognized as an expense in “General and administrative expenses” in the consolidated income statement | ¥ 8                     |

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 SMBC 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 SMBC 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:

|                                                                                                                          | <b>For the fiscal year ended<br/>March 31, 2017</b> |
|--------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|
|                                                                                                                          | <b>(In millions)</b>                                |
| 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<br>control of the subsidiaries . . . . . | ¥ (199,356)                                         |

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 SMBC 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, the Company'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 SMBC 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:

|                                                                                                                                               | <b>At November 1, 2015</b> |
|-----------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|
|                                                                                                                                               | <b>(In millions)</b>       |
| <b>Assets:</b>                                                                                                                                |                            |
| Cash and deposits with banks . . . . .                                                                                                        | ¥ 2,296,107                |
| All other assets . . . . .                                                                                                                    | 110,978                    |
| Total assets . . . . .                                                                                                                        | ¥ 2,407,085                |
| <b>Liabilities:</b>                                                                                                                           |                            |
| Deposits . . . . .                                                                                                                            | ¥ 2,361,908                |
| All other liabilities . . . . .                                                                                                               | 8,620                      |
| Total liabilities . . . . .                                                                                                                   | ¥ 2,370,528                |
| Net assets acquired . . . . .                                                                                                                 | 36,557                     |
| Goodwill . . . . .                                                                                                                            | 8,443                      |
| Consideration . . . . .                                                                                                                       | ¥ 45,000                   |
| <b>Consideration:</b>                                                                                                                         |                            |
| Fair value of consideration transferred . . . . .                                                                                             | ¥ 45,000                   |
| Total . . . . .                                                                                                                               | ¥ 45,000                   |
| Acquisition related costs recognized as an expense in "General and administrative expenses"<br>in the consolidated income statement . . . . . | ¥ 286                      |

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:

|                                                                                                                                          | <b>For the fiscal year ended<br/>March 31, 2016</b> |
|------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|
|                                                                                                                                          | <b>(In millions)</b>                                |
| Cash consideration paid . . . . .                                                                                                        | ¥ (46,923)                                          |
| Cash and cash equivalents transferred as a result of the acquisitions . . . . .                                                          | 2,296,517                                           |
| Cash consideration paid, net of cash and cash equivalents \acquired by obtaining<br>control of the subsidiaries and businesses . . . . . | ¥ 2,249,594                                         |

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.

**50 ASSETS AND DISPOSAL GROUPS HELD FOR SALE**

The table below shows non-current assets and disposal groups held for sale at March 31, 2018 and 2017.

|                                                                | <b>At March 31,</b>       |                         |
|----------------------------------------------------------------|---------------------------|-------------------------|
|                                                                | <b>2018</b>               | <b>2017</b>             |
|                                                                | <b>(In millions)</b>      |                         |
| Assets held for sale:                                          |                           |                         |
| Loans and advances <sup>(1)</sup> . . . . .                    | ¥3,010,314                | ¥ —                     |
| Property, plant and equipment . . . . .                        | 1,435,637                 | 300                     |
| Intangible assets . . . . .                                    | 179,358                   | —                       |
| All other assets . . . . .                                     | 1,026,641                 | 134,007                 |
| Total . . . . .                                                | 5,651,950 <sup>(2)</sup>  | 134,307 <sup>(3)</sup>  |
| Liabilities directly associated with the assets held for sale: |                           |                         |
| Borrowings . . . . .                                           | 1,631,681                 | —                       |
| Debt securities in issue . . . . .                             | 1,422,402                 | —                       |
| All other liabilities . . . . .                                | 562,858                   | 27,665                  |
| Total . . . . .                                                | ¥3,616,941 <sup>(2)</sup> | ¥ 27,665 <sup>(3)</sup> |

(1) The balance in Loans and advances mainly consists of lease financing.

(2) The assets and liabilities of SMFL were classified as held for sale during the fiscal year ended March 31, 2018.

(3) The comparative amounts of “Assets held for sale” and “Liabilities directly associated with the assets held for sale” have been reclassified from “Other assets” and “Other liabilities”, respectively, to conform to the current presentation.

Other reserves relating to non-current assets and disposal groups held for sale at March 31, 2018 and 2017 were ¥52,146 million and nil, respectively.

**Reorganization of joint leasing partnership**

On November 6, 2017, the SMBC Group announced that it had entered into a basic agreement with Sumitomo Corporation (“Sumitomo Corp”) concerning the reorganization of its joint leasing partnership, subject to the approval of foreign and domestic regulatory authorities. The final agreement regarding the reorganization was concluded on March 30, 2018 and in this reorganization, the Company will reduce its equity interest in SMFL from 60% to 50% and Sumitomo Corp will increase its equity interest in SMFL from 40% to 50%. As a result, SMFL will cease to be the Company’s consolidated subsidiary and will become its joint venture.

Based on the facts and circumstances, the SMBC Group determined that the reorganization within one year is considered highly probable and therefore the assets and liabilities of SMFL were classified as held for sale during the fiscal year ended March 31, 2018.

## 51 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, derivative financial instruments, financial assets included in assets held for sale and financial liabilities included in liabilities directly associated with the assets held for sale, by amounts recovered or settled, not more than twelve months or more than twelve months, at March 31, 2018 and 2017.

| At March 31, 2018                                                                     |                                |                            |       |             |
|---------------------------------------------------------------------------------------|--------------------------------|----------------------------|-------|-------------|
| Amounts recovered or settled                                                          |                                |                            |       |             |
|                                                                                       | Not more than<br>twelve months | More than<br>twelve months | Total |             |
|                                                                                       | (In millions)                  |                            |       |             |
| Assets:                                                                               |                                |                            |       |             |
| Call loans and bills bought . . . . .                                                 | ¥ 1,802,317                    | ¥ 79,563                   | ¥     | 1,881,880   |
| Reverse repurchase agreements and cash collateral on securities<br>borrowed . . . . . | 8,418,341                      | 73,362                     |       | 8,491,703   |
| Financial assets at fair value through profit or loss . . . . .                       | 205,525                        | 1,342,147                  |       | 1,547,672   |
| Investment securities:                                                                |                                |                            |       |             |
| Held-to-maturity investments . . . . .                                                | 92,033                         | 280,426                    |       | 372,459     |
| Available-for-sale financial assets . . . . .                                         | 5,034,184                      | 15,088,432                 |       | 20,122,616  |
| Loans and advances . . . . .                                                          | 29,469,067                     | 55,660,003                 |       | 85,129,070  |
| Other financial assets . . . . .                                                      | 3,490,685                      | 107,957                    |       | 3,598,642   |
| Liabilities:                                                                          |                                |                            |       |             |
| Deposits . . . . .                                                                    | ¥123,901,761                   | ¥ 4,559,766                | ¥     | 128,461,527 |
| Call money and bills sold . . . . .                                                   | 1,190,929                      | —                          |       | 1,190,929   |
| Repurchase agreements and cash collateral on securities lent . . .                    | 12,022,593                     | —                          |       | 12,022,593  |
| Borrowings . . . . .                                                                  | 7,264,455                      | 3,388,026                  |       | 10,652,481  |
| Debt securities in issue . . . . .                                                    | 3,356,401                      | 7,212,716                  |       | 10,569,117  |
| Other financial liabilities . . . . .                                                 | 6,687,889                      | 3,153                      |       | 6,691,042   |

| At March 31, 2017                                                                     |                                |                            |       |             |
|---------------------------------------------------------------------------------------|--------------------------------|----------------------------|-------|-------------|
| Amounts recovered or settled                                                          |                                |                            |       |             |
|                                                                                       | Not more than<br>twelve months | More than<br>twelve months | Total |             |
|                                                                                       | (In millions)                  |                            |       |             |
| Assets:                                                                               |                                |                            |       |             |
| Call loans and bills bought . . . . .                                                 | ¥ 1,824,730                    | ¥ 47,479                   | ¥     | 1,872,209   |
| Reverse repurchase agreements and cash collateral on securities<br>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   |
| Liabilities:                                                                          |                                |                            |       |             |
| 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   |

## 52 CONDENSED FINANCIAL INFORMATION OF REGISTRANT (SMFG)

### Condensed Statement of Financial Position

|                                                    | At March 31,       |                    |
|----------------------------------------------------|--------------------|--------------------|
|                                                    | 2018               | 2017               |
|                                                    | (In millions)      |                    |
| <b>Assets:</b>                                     |                    |                    |
| Deposits with SMBC                                 | ¥ 251,681          | ¥ 728,445          |
| Investments in SMBC                                | 4,613,844          | 4,613,844          |
| Loans to SMBC                                      | 5,537,801          | 3,424,217          |
| Investments in other subsidiaries and associates   | 1,548,012          | 1,547,319          |
| Other assets                                       | 90,605             | 58,670             |
| Current tax assets                                 | 67,414             | 87,571             |
| Total assets                                       | <u>¥12,109,357</u> | <u>¥10,460,066</u> |
| <b>Liabilities and equity:</b>                     |                    |                    |
| Short-term borrowings from SMBC                    | ¥ 1,228,030        | ¥ 1,228,030        |
| Long-term borrowings                               | 199,221            | 132,806            |
| Debt securities in issue due to other subsidiaries | 280,880            | 280,784            |
| Debt securities in issue                           | 4,216,292          | 2,821,356          |
| Other liabilities                                  | 47,001             | 22,612             |
| Total liabilities                                  | <u>5,971,424</u>   | <u>4,485,588</u>   |
| Shareholders' equity                               | 5,541,687          | 5,527,691          |
| Other equity instruments holders' equity           | 596,246            | 446,787            |
| Total equity                                       | <u>6,137,933</u>   | <u>5,974,478</u>   |
| Total equity and liabilities                       | <u>¥12,109,357</u> | <u>¥10,460,066</u> |

## Condensed Income Statement

|                                                        | For the fiscal year ended March 31, |           |           |
|--------------------------------------------------------|-------------------------------------|-----------|-----------|
|                                                        | 2018                                | 2017      | 2016      |
|                                                        | (In millions)                       |           |           |
| <b>Income:</b>                                         |                                     |           |           |
| Interest income from SMBC .....                        | ¥ 99,100                            | ¥ 52,938  | ¥ 18,313  |
| Dividends from SMBC .....                              | 223,334                             | 408,419   | 522,636   |
| Dividends from other subsidiaries and associates ..... | 33,668                              | 20,428    | 20,508    |
| Fees and commission income from subsidiaries .....     | 10,226                              | 20,706    | 16,622    |
| Other income .....                                     | 217                                 | 178       | 234       |
| Total income .....                                     | 366,545                             | 502,669   | 578,313   |
| <b>Expense:</b>                                        |                                     |           |           |
| Interest expense to SMBC .....                         | 4,298                               | 4,474     | 5,753     |
| Interest expense to other subsidiaries .....           | 16,309                              | 13,039    | 12,780    |
| Interest expense .....                                 | 89,699                              | 45,223    | 12,814    |
| Operating and other expense .....                      | 21,525                              | 12,165    | 9,868     |
| Total expense .....                                    | 131,831                             | 74,901    | 41,215    |
| Profit before tax .....                                | 234,714                             | 427,768   | 537,098   |
| Income tax expense .....                               | (7,085)                             | (33,344)  | 4         |
| Net profit .....                                       | ¥ 241,799                           | ¥ 461,112 | ¥ 537,094 |
| Profit attributable to:                                |                                     |           |           |
| Shareholders .....                                     | 232,077                             | 453,183   | 534,321   |
| Other equity instruments holders .....                 | 9,722                               | 7,929     | 2,773     |

## Condensed Statement of Cash Flows

|                                                                                    | For the fiscal year ended March 31, |             |             |
|------------------------------------------------------------------------------------|-------------------------------------|-------------|-------------|
|                                                                                    | 2018                                | 2017        | 2016        |
|                                                                                    | (In millions)                       |             |             |
| <b>Operating Activities:</b>                                                       |                                     |             |             |
| Profit before tax . . . . .                                                        | ¥ 234,714                           | ¥ 427,768   | ¥ 537,098   |
| Income taxes paid—net . . . . .                                                    | 35,010                              | 23,427      | (7,980)     |
| Other operating activities—net . . . . .                                           | (3,736)                             | (4,580)     | (3,019)     |
| Net cash and cash equivalents provided by operating activities . . . . .           | 265,988                             | 446,615     | 526,099     |
| <b>Investing Activities:</b>                                                       |                                     |             |             |
| Loans provided to SMBC . . . . .                                                   | (2,241,774)                         | (1,972,253) | (1,073,640) |
| Other investing activities—net . . . . .                                           | (13,833)                            | (5)         | (76)        |
| Net cash and cash equivalents used in investing activities . . . . .               | (2,255,607)                         | (1,972,258) | (1,073,716) |
| <b>Financing Activities:</b>                                                       |                                     |             |             |
| Proceeds from issuance of long-term borrowings . . . . .                           | 66,415                              | 83,806      | 18,000      |
| Proceeds from issuance of debt securities . . . . .                                | 1,525,271                           | 1,738,267   | 754,274     |
| Proceeds from issuance of other equity instruments . . . . .                       | 149,080                             | 149,081     | 297,431     |
| Dividends paid to shareholders . . . . .                                           | (218,569)                           | (211,501)   | (218,589)   |
| Coupons paid to other equity instruments holders . . . . .                         | (9,722)                             | (7,929)     | (2,773)     |
| Purchases of treasury stock and proceeds from sale of treasury stock—net . . . . . | 380                                 | (86)        | (138)       |
| Net cash and cash equivalents provided by financing activities . . . . .           | 1,512,855                           | 1,751,638   | 848,205     |
| Net increase of cash and cash equivalents . . . . .                                | (476,764)                           | 225,995     | 300,588     |
| Cash and cash equivalents at beginning of period . . . . .                         | 728,445                             | 502,450     | 201,862     |
| Cash and cash equivalents at end of period . . . . .                               | ¥ 251,681                           | ¥ 728,445   | ¥ 502,450   |

## Investments in subsidiaries and associates

Investments in subsidiaries and associates are stated at cost. The Company 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 Sumitomo Mitsui Finance and Leasing Company, Limited, SMBC Nikko Securities Inc., SMFG Card & Credit, Inc., SMBC Consumer Finance Co., Ltd., Sumitomo Mitsui Asset Management Company, Limited and others at March 31, 2018, and Sumitomo Mitsui Finance and Leasing Company, Limited, SMBC Nikko Securities Inc., SMBC Friend Securities Co. Ltd., SMFG Card & Credit, Inc., SMBC Consumer Finance Co., Ltd., Sumitomo Mitsui Asset Management Company, Limited and others at March 31, 2017. These companies are incorporated in Japan, and the proportion of ownership interest of the Company 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

The Company had perpetual subordinated bonds of ¥267 billion and ¥267 billion outstanding to its subsidiary, SMFG Preferred Capital JPY 3 Limited, at March 31, 2018 and 2017, 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.

The Company had subordinated long-term borrowings amounting to ¥49 billion and ¥49 billion at March 31, 2018 and 2017, respectively, and had unsubordinated long-term borrowings amounting to ¥150 billion and to ¥84 billion at March 31, 2018 and 2017, respectively. The Company also had subordinated bonds amounting to ¥945 billion and ¥856 billion, including ¥2 billion and ¥7 billion outstanding to its subsidiary, at March 31, 2018 and 2017, respectively, and had senior bonds amounting to ¥3,285 billion and ¥1,979 billion, including ¥12 billion and ¥7 billion outstanding to its subsidiary, at March 31, 2018 and 2017, respectively. For additional information, refer to Note 18 “Borrowings” and Note 19 “Debt Securities in Issue.”

### **Guarantees**

The Company provided guarantee of ¥298 billion and ¥516 billion at March 31, 2018 and 2017, respectively, to the Deposit Protection Fund of the Association of German Banks with regard to the deposits of the SMBC Dusseldorf branch.

## LIST OF SUBSIDIARIES OF SUMITOMO MITSUI FINANCIAL GROUP, INC.

## List of Subsidiaries at March 31, 2018

| <u>Company Name</u>                                 | <u>Jurisdiction</u>    |
|-----------------------------------------------------|------------------------|
| Sumitomo Mitsui Banking Corporation                 | Japan                  |
| Banco Sumitomo Mitsui Brasileiro S.A.               | Brazil                 |
| Cedyna Financial Corporation                        | Japan                  |
| Japan Pension Navigator Co., Ltd.                   | Japan                  |
| JSC Sumitomo Mitsui Rus Bank                        | Russia                 |
| Manufacturers Bank                                  | U.S.A.                 |
| NCore Co., Ltd.                                     | Japan                  |
| Polarify, Inc.                                      | Japan                  |
| PT Bank Sumitomo Mitsui Indonesia                   | Indonesia              |
| Sakura Finance Asia Limited                         | Hong Kong              |
| SAKURA KCS Corporation                              | Japan                  |
| SFVI Limited                                        | British Virgin Islands |
| SMBC Advisory Services Saudi Arabia LLC             | Saudi Arabia           |
| SMBC Aviation Capital Limited                       | Ireland                |
| 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 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 Mobit 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 2 Limited                | Cayman Islands         |
| SMBC Preferred Capital JPY 1 Limited                | Cayman Islands         |
| SMBC Preferred Capital JPY 2 Limited                | Cayman Islands         |
| SMBC Preferred Capital USD 3 Limited                | Cayman Islands         |
| 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 2 Limited                | Cayman Islands         |
| SMFG Preferred Capital JPY 1 Limited                | Cayman Islands         |
| SMFG Preferred Capital JPY 2 Limited                | Cayman Islands         |
| SMFG Preferred Capital JPY 3 Limited                | Cayman Islands         |
| SMFG Preferred Capital USD 3 Limited                | Cayman Islands         |
| SMFL Capital Company, Limited                       | Japan                  |
| SMM Auto Finance, Inc.                              | Japan                  |

**Company Name**

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

**Jurisdiction**

Japan  
U.K.  
Malaysia  
China  
Japan  
Japan  
Ireland  
Japan

## **CODE OF ETHICS**

### **Code of Ethics of Sumitomo Mitsui Financial Group, Inc.**

#### **(English Translation)**

#### **Excerpts from Principles of Action on Compliance and Risk—5. 20 Guiding Principles and 60 Principles of Action—(3) Maintenance of Sound Management—Fifth Guiding Principle**

(i) We will protect the Group's assets and reputation by coping with situations where interests of the Group and of the directors, officers or other employees of the Group are in conflict (or situations that is seriously concerned to be in conflict of interest), with a manner of integrity and justice.

#### **Excerpts from Principles of Action on Compliance and Risk—5. 20 Guiding Principles and 60 Principles of Action—(3) Maintenance of Sound Management—Third Guiding Principle**

(i) We will implement timely and reasonable disclosure of accurate information pursuant to laws and regulations. We will disclose fair, accurate, necessary and sufficient information, through reporting documents submitted to supervisory authority, in a timely and an easy to understand manner.

#### **Excerpts from Principles of Action on Compliance and Risk—3. Code of Conduct**

(1) Code of Conduct is designed to be a guideline for conduct of the directors, officers and other employees in the realization of the business mission in all areas.

(2) 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 firm, to abide by all laws and regulations, to maintain a high ethical standard, and to act fairly and sincerely;

#### **Excerpts from Policies on Compliance Management—6. Control Process—(8) Handling and Responsibility on Occurrence of Problems**

(ii) When officers and employees find any violation or possible violation of laws, regulations, social rules, and SMBC Group's internal rules, they shall promptly report to Compliance Officers, General Managers, or the General Affairs Department, or promptly call the "SMBC Group Alarm Line."

#### **Excerpts from Policies on Compliance Management—6. Control Process—(8) Handling and Responsibility on Occurrence of Problems**

(iv) A Compliance Officer may be censured if he or she is considered to be negligent in performing his or her duties as Compliance Officer. An officer or other employee shall also be censured if he or she is aware of a violation of laws, regulations, social rules, and SMBC Group's internal rule and does not report such violation.

**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 28, 2018

/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 28, 2018

/s/ Jun Ohta

Name: Jun Ohta

Title: Deputy President and Executive Officer  
Group Chief Financial Officer

**Exhibit 13.1**

**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, 2018 (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 28, 2018

/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, 2018 (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 28, 2018

/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 22, 2018, with respect to the consolidated statement of financial position of Sumitomo Mitsui Financial Group, Inc. and subsidiaries as of March 31, 2018 and 2017, 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, 2018 and the related notes (collectively, the “consolidated financial statements”), and the effectiveness of Sumitomo Mitsui Financial Group, Inc.’s internal control over financial reporting as of March 31, 2018, which reports appear in the March 31, 2018 annual report on Form 20-F of Sumitomo Mitsui Financial Group, Inc.

/s/ KPMG AZSA LLC

Tokyo, Japan  
June 28, 2018