

Major Q&A at SMBC Group's Sustainability Initiatives

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Q1 Currently, targets for reducing financed emissions have been set by each sector, but has target setting for the whole portfolio being considered to achieve net zero?

A1 <Takanashi> Medium-term targets for 2030 have been set for the power, oil & gas, and coal sectors, consistent with the Paris Agreement. We plan to complete setting medium-term targets for nine sectors required by NZBA (Net Zero Banking Alliance) by October 2024, which account for approximately 90% of global GHG emissions.

Setting targets for all sectors is an ideal approach indeed. However, with limited resources, we prioritize setting a course of reduction in high-emission sectors first to make steady progress toward achieving net zero for the whole portfolio.

Q2 How do the outside directors gather information proactively and raise issues at the Board of Directors to protect the interests of stakeholders?

A2 <Matsumoto> I closely monitor whether SMBC Group maintains sound management and governance and share my views to the executive side if there are any questions or concerns, as both an outside director and the chairman of the Audit Committee. I also put efforts into grasping the market's view regarding our capital policy and shareholder returns, as I recognize the importance of returning profits to shareholders in a balanced manner.

<Sakurai> It is vital for SMBC Group's sustainability/ governance strategies and initiatives to be based on global standards. I am constantly updating myself as an outside director to contribute to this goal. For example, I endeavor to deepen the understanding of SMBC Group's businesses through dialogues with the global advisors and institutional investors, participation in internal training sessions, and interviews with management and employees.

Q3 What discussions were made at the Board of Directors to improve PBR, and how do they encourage the execution side?

<Matsumoto> Having PBR over one should be a normal state as a company, but the financial sector needs to improve PBR while also accumulating capital that meets the regulatory requirements. Although it is a challenging target, we recognize it is essential to improve profitability toward this goal.

<Sakurai> The Board of Directors had held continuous discussions to enhance corporate value but went over the topic again in light of the Tokyo Stock Exchange's request to realize management that puts more weight on the cost of equity and stock price. The new Medium-Term Management Plan incorporates how it should actually be realized.

<Ito> The executive side is also aware of the importance of this matter as well. We will reduce the cost of equity through reduction of risk premium and lowering of β as shown on page 8 of today's material. This will be achieved by making stable bottom-line profit while enhancing predictability of business results through disclosures and engagements regarding non-financial information and upgrading of governance framework. In addition, we will strive to enhance corporate value over the mid- to long-term by improving PER following the increase in perpetual growth rate through promoting the multi-franchise strategy and expanding business in the U.S.

Q4 How will the outside directors monitor the progress of measures to prevent recurrence of irregularities?

<Matsumoto> I believe that it is essential to penetrate throughout the company what is the most important value for the company to exist. Corporate culture will be cultivated only after persistent and continuous effort to do so. For example, in the railway company that I used to work for, "safety" was the most important value, and "fail safe," to always choose the safer option, was the principle when making judgements. I have continuously worked to establish this culture as the top management of the railway company and as a result, we were able to avoid a serious accident at the discretion of employees. When I saw employees of SMBC Nikko Securities shed tears from hearing the president's explanation of the irregularities and his commitment, I took it as a hopeful sign that the culture of preventing recurrence has started to take root. To complement culture cultivation with frameworks and rules is also important as it is sometimes difficult to make the right decision. We will continue to closely monitor whether a firm framework is structured.

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