

MESSAGE FROM GROUP CEO

BUILDING AN ERA OF FULFILLED GROWTH

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The World in 2050

When I was born in 1958, Japan had entered a period of high economic growth. The construction of Tokyo Tower had just been completed and consumer electronics were quickly becoming a regular part of Japanese family life. In 1964, Tokyo hosted the Summer Olympic Games and the Tokaido Shinkansen opened. I still vividly remember the excitement and energy that

was present in what seemed like all corners of the country. Japan's economy continued to grow at a brisk pace after I entered the workforce and in the late 1980s the economy entered a phase that would later be referred to as "Japan's bubble economy." The economy continued to expand until 1991, and so the first 30 years of my life coincided with a period of economic growth and prosperity.



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However, the bubble economy eventually collapsed, leading to a plunge in the values of stocks, real estate, and a wide array of other assets. Financial institutions were faced with not only a sudden slowdown in the macroeconomy but also with plummeting collateral valuations. For many years we struggled with the disposal of the resulting non-performing loans. Japan's economy could not shake off sluggish growth and deflation; this led to the "Lost Decade" becoming the "Lost Two Decades" which eventually became the "Lost Three Decades." The 30 years of the midway stage of my life coincided with a period of stagnation in Japan.

The question now is: "What sort of era will the next 30 years be?" I expect peoples' values and lifestyles to undergo discontinuous change based on digitalization, climate change, and a range of other keywords. If we look at our current environment, we can see that long-term trends are undergoing a paradigm shift: from deflation to inflation, from consistently low-interest rates to rising interest rates, and from globalization to deglobalization. Trends that had continued over the past few decades are reversing, causing disruption in the process. We are entering a complex, unpredictable era. If we adopt an

optimistic perspective, we can say that we are entering an era that is not an extension of the past. Japan's economy, even though it has languished over the past 30 years, could break free of traditional restraints and unlock a new future.

I want to make the next 30 years an era of "fulfilled growth." Going forward, the metrics used to measure corporate value will change. Pursuing economic value will no longer be sufficient to enhance corporate value. A corporation's contributions to generating social value will become ever more important in increasing corporate value. Corporations that generate social value are those which contribute to the fulfilled growth of the global community. On the other hand, corporations that are unable to create social value will eventually be viewed as no longer having the right to pursue economic value.

2050, approximately 30 years from now, is also the target year set by the global community to achieve carbon neutrality and a decarbonized society. As you can see, 2050 is a major milestone for humankind, and I will share with you what SMBC Group will do to contribute to the global community's fulfilled growth.



I strongly believe that we will be able to reach even higher goals by pursuing quantitative growth that is accompanied by heightened quality in the next Medium-Term Management Plan.

Quantitative Growth Accompanied by Heightened Quality

The current Medium-Term Management Plan was launched in the spring of 2020, just as the COVID-19 pandemic was causing havoc and disruption all over the world. In my FY2020 Group CEO Message, I stressed that SMBC Group would overcome the impact of the unexpected pandemic and worked to drive our Group to greater heights through the evolution of our business model. However, we are now experiencing another major unforeseen event: Russia's invasion of Ukraine.

However, even in this discontinuous paradigm shift, there is no change to the path we must follow. Our Vision, "A trusted global solution provider committed to the growth of our customers and advancement of society," was designed to illustrate SMBC Group's path to sustained growth. Not only must we further develop our capabilities in the financial sector, we must also enhance our ability to provide high-quality solutions in non-financial areas on a global basis. Going forward, it is essential that we further enhance our focus on realizing our Vision.

In order to realize our Vision, we will pursue quantitative growth that is accompanied by heightened quality. When an organization ceases to pursue growth, it stagnates and morale falls. I want to make SMBC Group a lively, high-energy organization that enables junior level employees to pursue challenges in a variety of sectors with a sense of purpose and excitement. This positive energy will help drive SMBC Group's future growth over the next 30 years. Keeping firmly in mind that the nature of the risks we face will change, we will review our portfolio with the goal of enhancing both asset and capital efficiencies, and establish robust financial foundations by carrying out thorough, consistent cost control measures. At the same time, we will allocate the necessary management resources in a disciplined manner to business areas that contain sufficient growth potential. In addition, we will enhance our management foundations by strengthening our governance frameworks so that SMBC Group can realize sustained growth in an uncertain environment.

In FY2021, the second year of the current Medium-Term Management Plan, we managed to exceed our annual target and the prior year's results for both net business profit and bottom-line profit. We produced these solid results regardless of the fact that we faced unforeseen negative factors arising from the Russia-Ukraine conflict: impairment losses in our aircraft leasing business and increased credit costs. I believe this demonstrates that the path we are following is the right one. In addition, we have succeeded in laying the foundations of our sustained future growth through inorganic deals in the Asia retail and overseas securities businesses.

In FY2022, the final year of the current Medium-Term Management Plan, we will bring the Plan to a strong finish while laying the foundations for the next Medium-Term Management Plan. In terms of the bottom-line profit, we have set a target of ¥730 billion, a figure above our original target. However, I strongly believe that we will be able to reach even higher goals by pursuing quantitative growth that is accompanied by heightened quality in the next Medium-Term Management Plan.

Three Themes

In order to realize sustained growth, we must expand the range and enhance the sophistication and quality of our solutions. We are engaging in various initiatives based on the three themes that were established under the current Medium-Term Management Plan: “Data Orientated,” “Building Platforms,” and “Solutions Provider.” I would now like to take this opportunity to share a few distinct examples with you.

Expand our Asia Franchise

When I visit the developing economies of Asia, I am met with energy and vibrancy. Scenes that remind me of Japan when I was a child. I believe a country’s financial sector is closely correlated with its GDP, and for some time now I have wanted to realize ‘J-curve’ growth

in our revenue by establishing a second and third SMBC Group in Asia’s developing economies so that we can share in the benefits of their rapid growth.

In FY2021, as part of our Multi-Franchise Strategy, in addition to our existing investments in Indonesia, we acquired stakes in local financial institutions in India, Vietnam, and the Philippines with the aim of establishing the foundations of our sustained growth. Going forward, we will focus on post-merger integration (PMI) and developing these investments into strong, robust pillars that can support our future growth.

While we are already servicing large corporations in those countries, establishing a presence in the retail sector and becoming a full-line financial services provider will allow us to best capture the countries’ growth given the

expected vigorous expansion in personal consumption. We will offer a diverse product and service lineup that reflects the needs of each economy’s growth stage, starting with motorcycle loans, then branching out into automobile and mortgage loans, and finally offering multi-purpose loans and credit cards.

In April 2022, with the goal of maximizing the impact of our investments we established the Asia Business Development Division to strengthen PMI, governance, and other facets of our management framework in regard to our investee companies. The division is also expected to support our organic growth and help optimize our collaborations and synergies with investee companies. We will continue efforts to replicate our growth trajectory in Japan in Asia’s developing

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Our Inorganic Strategy to Realize Sustainable Growth

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economies by expanding the scope of our business and becoming a comprehensive financial group in those local markets.

Enhance our Overseas Securities Business

Our overseas securities business is an area in which we are lagging behind our competitors. Our competitors managed to generate significant revenue from vibrant bond markets during COVID-19 while we were unable to capture sufficient opportunities.

Our partnership with Jefferies is of great importance as it will allow us to grow in the U.S. market by strengthening our business portfolio. We commenced collaborations in Sub Investment-Grade, global M&A, and the healthcare sector, combining Jefferies' deep knowledge of capital

markets with SMBC Group's client base and financing functions. These collaborations are already producing results. For example, we have been able to close deals with clients with which SMBC Group had not been able to develop a business relationship. We will further accelerate the growth of our overseas securities business and expanding our collaborations with Jefferies will be an important part of this effort.

Embedded Solutions

With the digitalization of society gaining even more speed, it is no longer sufficient for us to leverage the extraordinary volume of financial data we possess and our robust client base to develop and provide financial platforms. We must also focus on developing and providing embedded financial

solutions, which are financial solutions that can be embedded in the platforms of non-financial partner corporations.

For example, we provide payment, financing, and other financial services to social media chat, e-commerce, and flea market applications that individual customers view on a daily basis via their smartphones. Our services are also embedded in the platforms of MaaS businesses and the cashless payment tools used by retail stores.

As we operate behind the scenes when providing financial services through such platforms, users usually do not realize the role we are playing. However, by allowing the financial platforms of non-financial firms to provide customers with safe and secure services, we are contributing to the spread of cashless payments.

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Opening up the Future of Finance through Digital

Realize Sustainability in a Sustainable Manner

Although Japan was full of energy and vibrancy during its period of high economic postwar growth, I clearly remember that the nights were very dark and quiet. The other day, an article written by the famous Japanese screenwriter Mr. Soh Kuramoto was published for which the title can be roughly translated as “Old Man, Turn Off the Lights and Return to Blissful Poverty” (BUNGEISHUNJU June). It was a public critique by Mr. Kuramoto of what he viewed as a tendency of old people in Japan to excessively focus on how the economy is performing. This he felt was in strict contrast to the concern shown by young people around the world regarding climate change. The mindset in which we pass the world on to the next generation in the same or better condition as when we inherited it is the fundamental concept behind sustainability, and it is an essential factor in the pursuit of happiness.

In order to pass our green earth on to future generations, we at SMBC Group are strengthening our efforts to tackle climate change. In May 2021, we established the Roadmap Addressing Climate Change, a long-term action plan to realize a carbon neutral society. In the roadmap, SMBC Group committed to reducing the GHG emissions of our group companies to net zero by 2030, and in August of the same year we committed to realizing a carbon neutral loan/

investment portfolio by 2050. In May 2022, we established a medium-term financed emissions reduction target for the power sector.

However, there is no simple, straightforward method of realizing carbon neutrality. A sudden withdrawal of credit facilities will not only disrupt the stable supply of power, but it could very well negatively impact the development of new decarbonization technologies. Merely reducing our loan portfolio in certain sectors does not address the heart of the issue. Together with our customers, we must carefully determine a realistic decarbonization route and pace up to 2050 while paying close attention to each country’s circumstances. As a proud member of the financial community, SMBC Group will do our best to contribute to the decarbonization of society by supporting customers’ efforts to transition to a carbon neutral business model and develop new technologies.

Having said this, climate change is one of the various paradigm shifts the world is facing, and also represents a major opportunity. We have set a KPI to execute sustainable financing equivalent to ¥30 trillion between FY2020 to FY2029. We have successfully captured increasing demand for such products, and in FY2021 we executed ¥5.4 trillion of sustainable financing. Going

forward, we will continue to support customers’ decarbonization efforts while increasing SMBC Group’s corporate value by providing a wide range of sustainability-related solutions that include financing, bond underwriting, leasing, and advisory services.

Our corporate color is green. As part of efforts to cement our position as a green financial institution that is firmly committed to contributing to the realization of a sustainable society, in April 2022 we consolidated the various sustainability-related functions located throughout SMBC Group to form the Sustainability Division. The Sustainability Division is staffed by more than 100 employees and is responsible for the full line of sustainability operations at SMBC Group, from strategic planning to providing customers with sustainability-related solutions. We will continue with efforts to contribute to the realization of a sustainable society by addressing issues such as climate change, human rights, biodiversity conservation, and economic growth. Through such initiatives we will realize sustainability in a sustainable manner.

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Creating Value through Sustainability Initiatives

Employees Pursuing Challenges Becomes the Strength of SMBC Group

Our people are the basis of SMBC Group's competitiveness, and they are the most valuable management resource that a financial group can possess. Since becoming Group CEO, under the slogan "Break the mold," I have endeavored to develop a corporate culture that encourages employees to pursue their aspirations and ambitions without being bound by preconceptions. I also believe that a willingness and desire to change at an organizational level has developed over the past three years.

More than 10 corporations have been established by giving shape to the ideas of junior and mid-tier staff through my CEO production project. In fact, some corporations are already generating profit. I have informed these strong-spirited CEOs that I support them in pursuing an IPO, and that I want them to engage in further challenges without being

constrained by the boundaries of SMBC Group. I believe that the future success of the financial sector depends on each and every one of our employees having big ambitions and thinking outside the box when pursuing those ambitions. The pursuit of those ambitions will also serve as a new source of power to drive SMBC Group forward into the future.

I am also working to realize a truly diverse and inclusive workplace by breaking through the differences of nationality, gender, culture, and mindset. I was seconded to Singapore in 2002, and my department was made up of about 50 staff, of whom only four were Japanese. The rest were locally hired employees of more than 10 different nationalities. The team was truly diverse in terms of culture and mindset. At first, I struggled to build consensus in such a diverse team. However, I soon experienced firsthand that combining various ways of thinking

leads to the creation of new ideas, which in turn leads to results that exceed expectations. Under the strong commitment of the senior management team, the promotion of diversity and inclusion at SMBC Group will be accelerated. The empowerment of women is an area of particular focus. We have set targets for female managers (20% of all managers) and female executive officers (25 people) to be reached by FY2025. Furthermore, SMBC Group overseas and domestic offices celebrate International Women's Day as part of efforts to develop a more inclusive, diverse culture.

In addition, we will strengthen our investments in human capital. For example, the total payment increase rate for SMBC employees, which reflects salary increases, promotions and bonuses, will be approximately 4%. In order to create a more comfortable working environment, we will allocate more resources to online training programs, the professional development of senior management and specialist staff, career path development, reskilling, and our healthcare framework. Through such efforts, we will create a virtuous cycle, in which personnel will be empowered to create new social value.

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Human Resource Strategies Supporting Value Creation



The Sustained Growth of Shareholder Value

Realizing the sustained growth of a corporation's value and passing on that value to its shareholders is a CEO's responsibility. While SMBC Group's progressive dividend policy will remain our principal approach to enhancing shareholder returns, we will also execute share buybacks in a flexible manner. In FY2022, we set a bottom line target of ¥730 billion, a target which exceeds the initial target set under the Medium-Term Management Plan, and we increased our dividend forecast by ¥10 to ¥220, achieving our goal of a 40% dividend payout ratio. This means that during the three years covered by the current Medium-Term Management Plan, SMBC Group has increased its dividend payment by ¥30 per share and total dividend amount by ¥90 billion. We will place a buying order in the ¥100 billion share buyback program established in November 2021 once that is deemed to be appropriate. At the same time, we will carefully consider the macroenvironment to determine the plausibility of establishing a new share buyback

program. SMBC Group's capital remains at sufficient levels, even after taking into consideration our inorganic investments, and will be applied in a balanced manner to fund investments for growth and shareholder returns.

While we have enhanced shareholder returns, our PBR (Price to Book Ratio) remains mired at approximately 0.4. We consistently underperformed our competitors in this metric during FY2021, and this is an issue that I take very seriously. The key reason for our lagging share price is that we have not been able to convince investors of our vision of sustained growth. An increasing number of people are adopting a pessimistic view of the financial sector in Japan given the country's accelerating decline in birth rate and population, stagnating economy, and ongoing negative interest rate policy. However, I have no doubt that the expansion of our Asia franchise and the enhancement of our overseas securities business, both themes which I discussed earlier, will form the foundations of SMBC Group's sustained growth. We will increase

ROE from both the numerator and denominator by ensuring that our growth strategy produces the desired financial results and applying firm discipline to improve capital efficiency.

In addition to increasing shareholder value from a financial perspective, we will leverage our non-financial assets to increase SMBC Group's corporate value over the medium to long term. First, in order to consistently increase the value of personnel, data, and other assets that are not shown on our balance sheet, we will accelerate investments in digitalization and human capital. Then, we will engage with all our stakeholders after maximizing disclosure of ESG and other non-financial information, in order to minimize information asymmetry. We will strive to realize the sustained growth of SMBC Group's corporate value by providing greater information transparency, so that investors are able to forecast SMBC Group's performance with greater confidence, and by decreasing the cost of shareholder's equity.

SMBC Group will contribute to the world's fulfilled growth as we realize quantitative growth that is accompanied by heightened quality.



Take Care of the Matters at Hand and Wait for an Opportunity to Present Itself

I would like to conclude this year's message by sharing with you the thoughts of Liu Bei, a famous historic figure during the Three Kingdoms Period of China. He stressed the importance of carefully taking care of matters that you can actually control and patiently waiting for an opportunity to present itself. When I was rereading my favorite book the other day, I felt this applied to SMBC Group's situation right now.

Although we are seeing a gradual recovery from the COVID-19 pandemic, the global

macroenvironment remains highly volatile due to Russia's invasion of Ukraine and a number of other factors. Furthermore, we are also facing climate change, digitalization, and other irreversible paradigm shifts. In terms of internal matters, it is imperative for SMBC Group to regain any loss of customer trust or confidence that may have resulted from the recent incident in our Group as quickly as possible. In such an environment, we will enhance our governance and other internal control frameworks while at the same time

building an even stronger business portfolio by improving capital, asset, and expense efficiencies.

SMBC Group will contribute to the world's fulfilled growth as we realize quantitative growth that is accompanied by heightened quality by patiently gathering our strength and consistently capturing new business opportunities. I would like to ask for the continued support and understanding of all our stakeholders as I stand at the forefront of SMBC Group's more than 110,000 employees in our efforts to realize this vision.