

Global Markets Business Unit

The Global Markets Business Unit offers solutions through foreign exchange, derivatives, bonds, stocks, and other marketable financial products and also undertakes asset liability management (“ALM”) operations that comprehensively control balance sheet liquidity risks and interest rate risks.

Masamichi Koike

Senior Managing Executive Officer
Head of Global Markets Business Unit



Contribution to Consolidated Net Business Profit (FY2021)

¥ **338.1** billion

23%

	FY2021	YoY*1
Gross profit (JPY bn)	390.6	(71.2)
Expenses (JPY bn)	92.3	+5.2
Base expenses (JPY bn)	89.4	+5.5
Net business profit (JPY bn)	338.1	(72.3)
ROCET1*2	15.5%	(3.4)%
RwA (JPY tn)	5.8	(0.5)

*1 Figures are after adjustments for interest rate and exchange rate impacts.

*2 Figures include internal risk capital related to IRRBB (Interest-Rate Risk in the Banking Book).

The Global Markets Business Unit is, as market risk professionals, committed to enhancing risk-taking skills for our investment portfolio while continuously supplying customers with high level of value. To support these efforts, we are focused on analyzing the various phenomena that occur throughout the world based on the Three “I” s of Insight, Imagination, and Intelligence in order to forecast the market trends that will emerge in the future or, in other words, to discern the underlying essence of world affairs.

In FY2021, supply has been unable to keep up with recovering demand in countries emerging from the COVID-19 pandemic, resulting in higher-than-expected inflation worldwide. Central banks in many developed economies have shifted their policies towards curbing inflation, producing a sharp rise in interest rates and a destabilization of financial markets. Amidst these circumstances, we have ensured profitability through flexible rebalancing, in combination with controlling risk in both equities and bonds. At the same time, we maintained stable foreign currency funding to meet the funding needs of customers. Meanwhile, in sales & trading, we sought to develop a full understanding of customer needs so that we could address these needs by providing optimal solutions.

The current market environment features a variety of surfacing risk factors, including geopolitical risks, and mounting uncertainty about the future. In addition, customer needs continue to become more diverse, as indicated by the advancement of the digitalization trend and growing interest in social issues. FY2022 will be the final year of the Medium-Term Management Plan, and we will continue to read current and future market trends to create solutions that customers choose. Accordingly, the Global Markets Business Unit will continue to dedicate ourselves to facing the markets sincerely, with an even greater commitment to contributing to the growth of customers and of SMBC Group.

PRIORITY STRATEGY

1

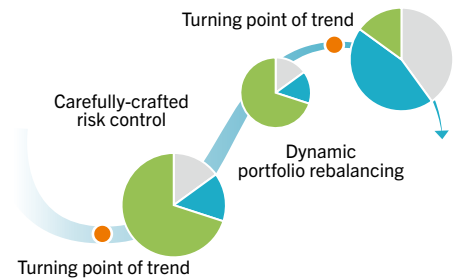
Flexible Portfolio Management in Response to Market Changes

The strength of the Global Markets Business Unit lies in its ability to dynamically adjust its portfolio to maximize earnings by accurately capturing market trends through proactive observation of market fluctuations.

By making use of the Three “I” s, each employee collects and analyzes information with regard to various phenomena and thoroughly discusses these phenomena with others. Then, they make positions in accordance with the scenarios formulated through this work, after which they review the results and validity of these positions. The consistent application of this iterative process is the only way we can hone our ability to read the markets.

While we focus on risk control in a time of major shifts in the market environment, we continue to take on the challenge of enhancing our portfolio management by expanding data-driven investment methods and augmenting our analytical functions in anticipation of future investment opportunities.

Overview of Portfolio Rebalancing



PRIORITY STRATEGY

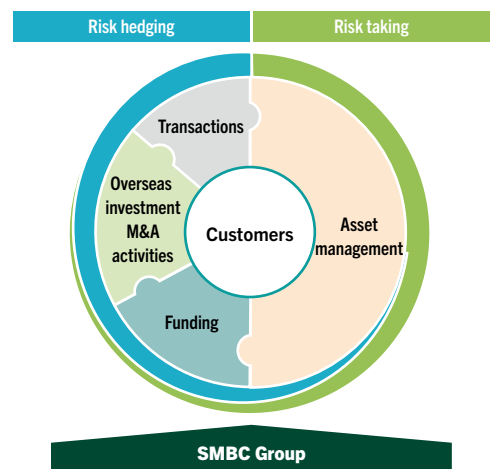
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Enhancement of Capability to Provide Solutions through Marketable Financial Products

The Global Markets Business Unit is accelerating the development of the functions needed to respond to the risk-hedging needs associated with customers’ businesses and balance sheets and the risk-taking needs related to customers’ asset management and investment activities.

Specifically, in order to meet our customers’ increasingly complex and sophisticated needs, we are strengthening our ability to provide tailor-made proposals specific to each customer’s situation, expanding our product lineup, and promoting global sales partnerships. We are also advancing the development of system infrastructure and risk management framework as part of these efforts.

We are also expanding our electronic platform globally while enhancing its risk control functions, in order to provide convenient foreign exchange services to our customers.



PRIORITY STRATEGY

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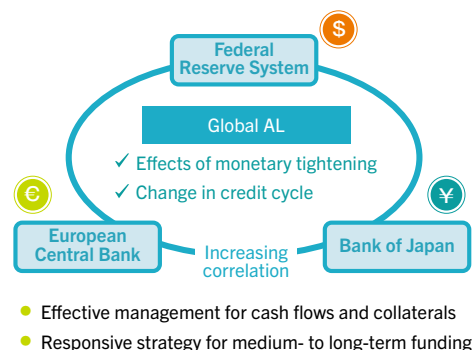
Development of Robust Foreign Currency Funding Base

The Global Markets Business Unit is taking steps for foreign currency funding to balance between ensuring stability and pursuing cost efficiency so that it can continue to support customers' businesses through lending. For this purpose, we make funding strategies by taking into account the structure of SMBC Group's balance sheet and the market condition, along with seeking to expand our investor base and diversify funding methods.

Initiatives toward these ends have included, in addition to regular foreign currency denominated straight bonds, issuing covered bonds and utilizing cross-currency repo transactions.*

Normalization of monetary policy is underway in the U.S. and other nations, and the financing environment, hitherto based on abundant liquidity, is changing. We are proactively responding to these changes by promoting balance sheet control from a long-term perspective through our global ALM management.

*Cross-currency repo transactions are forms of foreign currency funding backed by Japanese government bonds, etc.



Sustainability Initiatives

The Global Markets Business Unit regularly issues green bonds from which procured funds are only used for eco-friendly projects, such as renewable energy projects.

In October 2015, we became the first Japanese private financial institution to issue U.S. dollar-denominated green bonds. In the years that followed, we proceeded to expand the scope of investors served with our green bonds, becoming the first private company in Japan to issue green bonds for individual investors in December 2018 and then issuing green bonds through a public offering in the U.S. in January 2021. To date, we have floated six green bond issues in Japan and overseas, procuring a total of approximately US\$3 billion. In these issues, we carefully explained our sustainability initiatives to investors to foster mutual understanding.

SMBC Group possesses a strong track record in project finance for domestic and overseas solar and wind power generation projects and other renewable energy projects. Going forward, we will seek to make greater contributions to market growth and to environmental preservation as Japan's leading issuer of green bonds.

