

## **Major Q&A at the FY3/2020 Investors Meeting**

### **Q1. Do you think that the credit cost forecast for FY3/21 is sufficient?**

A1. Our credit cost forecast for FY3/21 is JPY 450 bn, which was increased by JPY 260 bn compared to our original forecast before the spread of COVID-19. The increase includes both the impact coming from a macro view and from charges for specific large clients. I believe this is the best estimate we can come up with at this point under the uncertain outlook. We will flexibly change the forecast during the fiscal year if necessary.

### **Q2. What is the impact of COVID-19 on the aircraft leasing business?**

A2. As COVID-19 caused severe damage to many airlines, some of SMBCAC's lessees are filing for bankruptcy proceedings while others are suspending payments. However, since SMBCAC's aircrafts are mostly young narrow bodies, they remain leased by reorganized companies in most cases, and even if they are leased back, re-leasing is not difficult. Leasing assets should be partially impaired if leasing fees are reduced, but we do not expect the impairment cost to be significant. Nevertheless, bottom-line profit of SMBCAC is expected to be reduced by about 30-40% in the short-term. This will bring negative impact of less than JPY 10 bn to our bottom-line profit based on our ownership ratio of SMBCAC.

### **Q3. Do you have any concern about your exposure to natural resources?**

A3. We do not expect that credit cost will significantly increase in the natural resource sector. This is because 90% of natural resource-related exposure is highly rated and because we have been reducing exposure to non-Japanese upstream and service companies, which are vulnerable to natural-resource prices. However, considering the recent plunge in natural resource prices and expected change in supply and demand balance, we estimate credit cost in the natural resource sector to be around JPY 20 bn, of which JPY 10 bn was recorded as a forward-looking provision in FY3/20.

### **Q4. What is the breakdown of the negative impact of COVID-19 on bottom-line profit?**

A4. The largest is SMBC, which accounts for about three-quarters of the decline in bottom-line profit. This is mainly due to the increase of credit cost; SMBC accounts for JPY 230 bn out of the JPY 260 bn increase in consolidated credit cost due to COVID-19. Also, gross profit of SMBC Nikko is expected to decline because the wealth management business is expected to be sluggish.

**Q5. What is the background of the dividend increase in FY3/20? Is there any possibility for share buyback during this fiscal year?**

A5. We decided to increase dividends because we achieved the JPY 700 bn target of bottom-line profit in FY3/20 and to fulfill our commitment towards progressive dividends. Share buyback is basically determined once a year, taking into account the circumstances at that time. We didn't make this judgement in May, as the impact of COVID-19 on our earnings and capital remains uncertain.

**Q6. Have you made any change in the Medium-Term Management Plan or the mid-long term vision due to the impact of COVID-19?**

A6. The Medium-Term Management Plan was made based on the idea that we must reform our business model even before COVID-19. There is no change in this direction, and we will steadily execute the plan. At the same time, we have already started discussing new business opportunities for post-COVID-19, where the world and our lives are changed.

**Q7. How do you plan to reallocate management resources in the Medium-Term Management Plan?**

A7. "Transformation", one of three core policies of the Medium-Term Management Plan, means allocating management resources to key strategic business areas by reforming existing business models.

In the retail business, for example, we will invest our resources in HNWI on a group basis, while approaching the mass affluent customers efficiently and effectively through digitalization and personalized marketing.

**Q8. Why has the target of profitability of the Medium-Term Management Plan been changed to ROCET1?**

A8. The denominator has been changed to CET1 to ensure consistency with capital allocation, as the target of financial soundness is CET1 ratio. We will maximize ROCET1 by increasing bottom-line profit and disciplined capital management.

8.5% of ROCET1 is converted to 7.5% of ROE, as our ROCET1 is about 1% higher than ROE. Therefore, the new target of ROCET1 $\geq$ 8.5% means raising the lower limit by 0.5% compared to the target of 7-8% of ROE in the previous Medium-Term Management Plan.

**Q9. How will SMBC Group change due to sustainability management?**

A9. I believe that the decision-making and governance processes will always start from sustainability. Therefore, "Quality" is listed as one of three core policies of the Medium-Term Management Plan and we announced "SMBC Group Green×Globe 2030" including specific initiatives and KPIs of sustainability.

I believe that sustainability management should be based on our core business, otherwise it cannot be sustainable for us. Therefore, we will focus on contributing to society through our core business, such as green finance.

This presentation contains forward-looking statements based on the views, judgments and current expectations of the management of the Group and Group companies with respect to the financial position and Operating and financial review of the Group. In many cases, these statements may include, but are not limited to, words such as "anticipate," "expect," "intend," "plan," "potential." These statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those contained or deemed to be contained in these materials. Risks and uncertainties that could affect the actual results are as follows. These risks include the deterioration of Economic and Financial Environment in Japan and overseas, risks associated with stockholdings, the increase in bad debt and total credit cost, the risk of failure in our business strategy, the risk of failure in joint ventures, alliances, equity investments and acquisitions, and business integration, and the risk of failure in our business expansion overseas. In light of these risks and uncertainties, the Company should not place undue reliance on forward-looking statements as of the date of publication of this document. We undertake no obligation to update or revise any forward-looking statements. For matters that may have a significant impact on the financial condition and Operating and financial review of the Group and investors' investment decisions, please refer to the most recent Japanese disclosures such as Securities reports, U.S. disclosures such as Form 20-F filed with the U.S. Securities and Exchange Commission, and various disclosures published by the Group.