

Major Q&A at the FY3/2021 Investors Meeting

Q1. What are the challenges in adapting to the change in environment with COVID-19?

A1. Challenges that we face or initiatives that we should accelerate have become clearer with COVID-19. For example, SMBC Nikko achieved the highest profit since our acquisition in FY3/21 due to the favorable market conditions mainly in the U.S., however, our competitors achieved higher profit than us and the gap between them became larger. Businesses where we have strengths were negatively impacted; the credit card and consumer finance businesses were sluggish due to low domestic consumption, as well as the aircraft leasing business and the businesses in Asia were affected by global stagnation. On the other hand, growth momentum of the cashless payment market accelerated by expansion of e-commerce and demand for contactless payment. Needs of corporate clients are changing and diversifying rapidly, including online transaction, DX, and sustainability. I believe that we don't have to revise our Medium-Term Management Plan, rather we should finetune and accelerate our initiatives to adapt to such changes.

Q2. What is the outlook of credit cost?

A2. Our credit cost is expected to be JPY 300 billion in FY3/22 and will slightly increase YOY considering forward-looking provisions that we made in FY3/20 and FY3/21. This is because 1) credit cost is expected to increase as the positive effect coming from strong government support diminishes, 2) negative impact coming from the three state of emergencies taken place in Japan is expected in certain industries including bars and restaurants, and 3) vaccination has not progressed sufficiently in Japan and it is still unclear when the negative impact of COVID-19 will disappear. I expect credit cost may not reach JPY 300 billion, if the global economy recovers as expected and vaccination sufficiently progresses in Japan.

Q3. What is the outlook of the performance of SMBC Aviation Capital (SMBCAC)?

A3. SMBCAC maintained positive net income for FY3/21, even under the severe business environment. While there may continue to be some uncertainties in the aviation space this year, the path to recovery is now in sight, particularly with the traffic demand recovering for domestic flights in some countries. SMBCAC is well positioned to capitalize on such pent-up demand as most of SMBCAC's portfolio are young, narrowbody aircrafts which are primarily used for domestic flights, and thus is expected to improve its financial results going forward.

Q4. How do you intend to use capital going forward? Is there a possibility for share buybacks? What is the outlook of inorganic growth?

A4 : During our Medium-Term Management Plan, we plan to generate bottom-line profit of JPY 1.8 trillion in three years. After allocating JPY 0.8 trillion to dividends and JPY 0.5 billion to organic growth, the remaining JPY 0.5 trillion will be used for share buybacks and inorganic growth. We will use JPY 0.1 trillion to the investment in FE Credit announced this April. However, since the loan demand is not that strong overseas mainly in the U.S., use of capital for organic growth could be lower than expected. Therefore, there might be additional capital that can be used for share buybacks or inorganic growth.

We decided not to announce share buybacks at this time, because of the continuing uncertain environment caused by COVID-19. I am fully aware that our stock price remains at a low level, and we will flexibly pursue share buybacks, taking into consideration the impact of COVID-19 and actions of our overseas peers.

For inorganic growth, the valuation of companies and businesses is declining due to COVID-19 and we will consider transactions if there are good opportunities. FE Credit is one good example. Targets of investments remain the same, 1) assets that raise our efficiency and 2) investments for the future.

Q5. Have you made changes to the target of bottom-line profit in the Medium-Term Management Plan due to the impact of COVID-19?

A5 : When we announced our Medium-Term Management Plan, I explained that the target of bottom-line profit for FY2/23 is JPY 710 billion on a core earning basis and will pursue certain upside on top of that. This will include profit from sales of strategic shareholdings, smaller than expected credit cost, and profit from inorganic growth, but it is difficult to forecast the exact amount at this moment. What I expect now is an additional JPY 20 billion on top of our initial target.

Q6. What is the outlook of the credit card and consumer finance businesses?

A6 : The credit card and consumer finance businesses where we have strengths had negative impact of COVID-19 because of sluggish domestic consumption. I expect that it will be difficult for the consumer finance business to recover to its pre-COVID level by the end of the Medium-Term Management Plan. On the other hand, the credit card business also suffered from low consumption in the 1H of FY3/21 but has been recovering faster with the increase of sales handled amount from the 2H and the growth of the cashless market. We will utilize our strength in the “stera” network where we handle issuing, processing, and acquiring, and seek business opportunities for data analytic services including “Custella”.

Q7. What is the progress of initiatives for ESG and climate change?

A7. We have increased our 2030 target of green finance from JPY 10 trillion to JPY 20 trillion since demand has increased more than we expected. We made a good start in FY3/21 with JPY 2.7 trillion and expect to exceed the target with the current pace. We will also target JPY 30 trillion in sustainable finance all together, including social bonds, etc. This area is a big business opportunity and we established a new department for this. We will consolidate our knowledge and provide services including finance and advisory.

We have announced the “Roadmap Addressing Climate Change”, a long-term action plan towards 2050, and the most difficult measures in the action plan is the assessment of the greenhouse gas emission generated by our loan/investment portfolio (“Scope 3”). We will start with industries which are considered to have high emission such as oil, gas, and electricity, and expand to other industries. This will be very challenging, but we will engage in interactive communications with our clients to contribute to a carbon neutral society.

Q8. What are the challenges in the “producing new CEOs” initiative?

A8. We have had a good start and I feel the mindset of employees is changing. However, new companies are still small and need time to contribute to our profit, and we need to plan the growth of the businesses. Our advantage over start-up companies is the management resources such as capital, employees, and customer base, but we need to change the mindset of the new CEOs from an employee perspective to an entrepreneur perspective who can come up with ideas in how to grow the company. With revision of the Banking Act, business areas will become more open for us and we will pursue various opportunities as a solution provider of both financial and non-financial services.

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.