

## **Major Q&A at the FY3/22 Investors Meeting**

### **Q1. What factors contributed to the strong core business profit and how sustainable is it?**

A1. Increase of consolidated net business profit was driven by Wholesale and Global Business Units. In the former, loan balances to small and medium-sized enterprises increased due to new capital needs (e.g. effective use of real estate, business restructuring) and loan spreads recovered to pre-COVID level. Business opportunities for the needs COVID-19 revealed had increased in large companies, while COVID related loans decreased. In the latter, loan demands have increased including advance funding in anticipation of higher interest rates. I expect these trends to continue.

### **Q2. How will the inorganic investments in the recent years contribute to the corporate value?**

A2: We target two types of investments: "businesses / assets with high asset and capital efficiency" and "businesses that contribute to the creation of future platforms." Examples of the first category are investment in Jefferies and acquisition of the aircraft leasing company. Our overseas securities business was not able to take advantage of the favorable market conditions under COVID-19 as much as our competitors' and the gap with them became larger. We will accelerate our growth by expanding collaboration with Jefferies. The aircraft leasing business has recently recovered to near pre COVID level excluding Russia and demand is expected to grow continuously. We aim to establish a solid business foundation and take more advantage of economies of scale while managing geopolitical risks. In the latter category, we invested in local financial institutions in India, Vietnam, and the Philippines in FY3/22 as part of our multi-franchise strategy. We will pursue further upsides to create "a second and third SMBC Group" by realizing synergies and expanding our business platform in addition to the growth of the investee companies themselves.

### **Q3. How do you operate unrealized losses of foreign bonds going forward?**

A3: Global Markets Business Unit adjusts the risk amount appropriately capturing changes in the market environment to manage the entire portfolio, not only foreign bonds but also Yen-denominated bonds, domestic stocks, and foreign stocks. We would reduce position with unrealized losses in our daily adjustments if necessary, while monitoring earnings and other factors.

### **Q4. What is the capital allocation policy target going forward?**

A4. There is no change in our CET1 ratio target around 10% ( $\pm 0.5\%$ ). We have temporarily allowed the CET1 ratio to decline by 0.5% due to the increased loan demand under COVID-19, but the ratio recovered to 10.0% at the end of FY3/22. We will manage our capital at the original target level going forward and will not intend to hold capital far more than the 10% CET1 ratio. Our capital allocation policy has neither changed; we will allocate excess capital to growth investments and shareholder returns in a balanced manner.

**Q5. What is your IT investment strategy?**

A5. We have increased IT investment from JPY 440 bn to JPY 500 bn under the current Medium-Term Management Plan, as it is indispensable for the future growth. We have secured JPY100 bn out of the JPY500bn as "CEO budget" to invest flexibly in areas that are expected to grow in the future and increased to JPY 130 bn this year which brings the total investment to JPY 530 bn. We will invest resources in strengthening resilience and ensuring stable operation of systems, in addition to accelerating the digitalization of payment services.

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