

Small Meeting about Inorganic Growth and Capital Policy

Major questions and answers

(Speaker) Toru Nakashima, Group CFO
Masahiro Yoshimura, General Manager, Business Development Department

Q1. What is the positive outcome from establishing Business Development Department and how do you manage the project team?

A1. Since the establishment of new department, we are able to consider the investment opportunity timely and comprehensively by gathering the resources spreading to many departments and allocating efficiently. We are also able to accumulate the lessons from each opportunity to improve our skills by sharing among the team. As we execute the transaction in a hands-on approach rather than leave everything up to advisors, we need around ten people per team for certain size transactions. We add appropriate staff to team during PMI phase and will assign original members to new investment opportunities when PMI gets on track.

Q2. Do you plan to manage the overseas investees by local management team, or by Japanese expat management?

A2. We basically combine two methods: a) maintain current local management team and b) send SMBC Group expats when the investees need to improve or strengthen certain area. I believe from my experiences that it is better to let local team run the business in a growing phase, but necessary to control by ourselves in a downside situation. We always need to prepare our alternative plan, even if we trust local management team.

Q3. How did you apply the lessons from the past to recent investments?

A3. Sometimes it is inevitable to pay certain premium to acquire good deals in negotiations. One of our lessons from the past is that there are cases which do not grow as we expect in our base case scenario. Currently, we show our analysis on risk scenario when we discuss with the management, and our decision-making process has enhanced distinctively. We also avoid paying high price by including certain price adjustment based on the financial results.

Q4. How do you plan to manage after investments?

A4 : We are considering reorganization after the closing of announced transactions. Not only number of people, but quality is also important in human resources to involve into local management team. We have selected people with business experiences in the investees' countries and management experience in overseas. By establishing organization and allocating sufficient people and resources, we will nurture the investees to create synergies with SMBC Group.

Q5. Considering the current PBR, do you have any plan to apply stringent investment criteria or put high priority on share buybacks?

A5 : Our capital policy is to achieve a healthy balance among securing financial soundness, enhancing shareholders return, and investing for growth. As we have accumulated capital to our target level, we are currently able to use excess capital to enhance shareholders return and pursue growth opportunities. We are fully aware that share buybacks will generate a high return considering the current market price and that our shareholders anticipate our share buybacks. On the other hand, it is essential to invest for future growth at the right timing and we would like to allocate the capital for the necessary investments.

We decided not to announce share buybacks at May for two reasons; one is the continuing uncertain environment caused by COVID-19, and the other is the consideration to the anticipation from stakeholders. For the former, the unclearness has eased by the progress of vaccination in Japan and we expect it may have changed the attitude of stakeholders. Regulators in the U.S. and Europe also lifted the restrictions on shareholders return. As a CFO, I have not changed my mind to pursue the opportunity for share buybacks during this fiscal year.

This material contains "forward-looking statements" based on the opinions, judgments and present forecasts of the management of the Group and Group companies regarding the financial condition and Operating and financial review of the Group. In many cases, these statements include, but are not limited to, words such as "anticipate," "expect," "intend," "plan," "may" and similar terms. These statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ from those expressed in the forward-looking statements contained or deemed to be included in this document. Risks and uncertainties that could affect actual results include, but are not limited to, the following: Risks related to worsening domestic and overseas Economic and Financial Environment, risks related to stockholdings, increases in the balance of non-performing loans and Credit cost, risks that our business strategies will not be successful, risks that our joint ventures, alliances, investments, acquisitions or management integration will not be successful, and risks that our overseas business expansion will not be successful. In light of these risks and uncertainties, you should not place undue reliance on "forward-looking statements" as of the date of this document. We undertake no obligation to update or revise any "forward-looking statements." Please refer to the latest disclosure materials published by the Group, including the Securities Report, the U.S. Form 20-F and other disclosures submitted to the U.S. Securities and Exchange Commission, as well as the latest disclosure materials published by the Group, regarding matters that may have a significant impact on the Group's financial position and Operating and financial review as well as investor decisions.