<u>Conference Call on Acquisition of YES BANK Limited Shares</u>

Transcript

- We agreed to acquire 20% of the outstanding common shares of YES BANK, an Indian commercial bank, from existing shareholders, including State Bank of India (SBI) and other local banks. After the investment, YES BANK will become an equity-method affiliate of SMFG and SMBC, through the appointment of two non-executive directors. Here are three key points in this project:

  1. Growth potential in India's commercial banking business:
     Fee pools are expected to expand significantly in line with GDP growth, with a notable shift in market share from state-owned banks to private banks. YES BANK is strategically positioned to take advantage of this trend within the fast-growing private commercial banking sector.

  2. A rare investment opportunity to fill the missing piece:
     Among our target countries for the Multi-Franchise Strategy, we have been exploring various opportunities as the last missing piece in the commercial banking business in India. India has strict regulations on investing in banks, and opportunities to make a bank of this scale an equity-method affiliate are very rare.

  3. Disciplined price negotiations:
     In a market where peers have Price-to Book ratio (PBR) of 1.1~2.4 times, we negotiated a reasonable PBR of 1.4 times. Goodwill is expected at approximately JPY 70 bn. By the fifth year after the investment, we expect the profit contribution of JPY 20 bn and an ROE exceeding 10%. The impact on the CET1 ratio is expected to be (24) bps.

- Overview of the Multi-Franchise Strategy:
  Our Multi-Franchise Strategy focuses on four target countries: India, Indonesia, Vietnam, and the Philippines. Since our initial investment in SMBC Indonesia (formerly BTPN) in 2013, we have been steadily building platforms in these countries. We believe that commercial banking business is necessary to capture those countries' growth, and India's commercial banking business was the last missing piece we needed.
  Looking ahead, we will focus on maximizing returns from the exiting investments. We do not plan to expand the target countries or invest in new businesses, while we might consider increasing our stake in existing investees or bolt-on investments,.

- Why YES BANK:

  1. Completion of the turnaround phase:
     In 2020, YES BANK faced governance issues under its founding family, leading to significant losses due to the disposal of non-performing loans. However, the Reserve Bank of India and SBI led a restructuring effort, replacing managements and implementing a strict compliance culture.

  2. Balanced business portfolio:
     As part of the restructuring, YES BANK also cleaned up its balance sheet by selling non-performing loans to large companies. It built a healthier portfolio by strengthening SME and retail businesses.

  3. Strong deposit growth:
     In India, the deposit acquisition capability is important as the banks are required to maintain a loan-to-deposit ratio of 90-95% as a guide. YES BANK has the advantage of growing its deposit balance at an annual growth rate of 15%. Since the restructuring, it has leveraged digital investment to expanding its customer base, offering transaction banking services for

wholesale clients and super apps for retail customers. Additionally, its advanced functions such as API connectivity allow it to provide services both directly and through partners.

- Financial performance:
  YES BANK's overhead ratio is currently above 70% due to upfront digital investments and external sales outsourcing, with the latter driven by a shift from focusing on large companies to mid-size companies and SMEs. However, the ratio is expected to improve as the bank expands the client base through transaction banking.
  The return on assets (ROA) is currently low at 0.6%, partly due to high funding costs and the investments in the low-profit Rural Infrastructure Development Fund (RIDF) during the period of deteriorated business performance. The latter stems from falling short of the Priority Sector Lending Regulation, which requires 40% of the outstanding loan balance to be allocated to specific sectors, such as rural areas. They plan to improve ROA to around 1% soon by redeeming bonds and reallocating to more profitable loans for mid-size corporations and SME.

Q&A

Q1. How do you think the CET1 ratio and capital adequacy after this investment?

A1. Details will be explained in the financial results announcement on May 14 and Investor Meetings on May16, but I do not think that the impact of this investment on the CET1 ratio of 24 bps will have a significant impact on our capital policy. There is no change in the target range of the CET1 ratio, and we will continue to balance growth investment and shareholder returns.

Q2. Why was this large-scale investment by a foreign financial institution in India possible, and why was the acquisition stake set at 20%? What are the constraints exist for increasing ownership?

A2. We recognized this as the largest investment by a foreign financial institution in a private bank in India. India's strict banking regulations require RBI approval for investment of 5% or more. YES BANK faced a temporary moratorium due to the governance issue by its founder, but with RBI guidance, SBI and other private banks injected capital, leading to the current shareholder structure. As they entered the growth phase after the turnaround period, they were looking for strategic investors to support their growth.

For SMBC, as part of our Multi-Franchise Strategy, we acquired a non-bank called SMFG India Credit Company (SMICC) and considered starting a commercial banking business in India. We explored both inorganic and organic options, including establishing a local subsidiary with 100% ownership. Ultimately, we chose the inorganic approach to capture the current growth in India. After negotiating with YES BANK and other sellers, we settled on a 20% stake, securing an appropriate stake to serve as a platform for our Multi-Franchise Strategy in India.

While I am not in a position to comment on other banks, I believe our successful agreement was due to our strong commitments and strategies for India and judged that SMBC Group could effectively support YES BANK's future growth.

There are constraints for further increasing ownership, including obtaining RBI approval and complying with the Single Presence Policy, and currently, no decision has been made about it.

Q3. What can SMBC Group achieve with a 20% investment?

A3. As an equity-method affiliate, we will be able to capture 20% of YES BANK's revenue. Additionally, we aim to create synergies with our existing branch business and SMICC. The ultimate goal of the Multi-Franchise Strategy is to build a top-tier financial platform in each country over medium- to long-term, and we will explore ways to leverage YES BANK to move closer to that goal.

Q4. Does the ROE of over 10% in the fifth year of investment include synergies? What kind of synergies are you considering in the early stages?

A4. The ROE calculation is based on solely on YES BANK's performance, deducting goodwill amortization and funding costs, and does not factor in synergies. We plan to explore potential synergies and aim to provide further details at a later stage. For example, we see opportunities to support YES BANK's clients, many of which are mid-size companies, as they expand globally. Additionally, SMICC works with SMEs, including those in rural areas, and its strong origination capabilities could help YES BANK enhance its SME initiatives in the future. The details of the collaboration will be examined in the future.

Q5. This investment is said to be the last missing piece in the Multi-Franchise Strategy －are there any changes planned for other areas? Has the Multi-Franchise Strategy shifted from an investment phase to focusing more on shareholder returns?

A5. In our overseas business, we will continue to focus on our Multi-Franchise Strategy in Asia and the CIB (Corporate and Investment Banking) business in the U.S. For the latter, we plan to achieve further results through various collaborations with Jefferies, as we have been doing so far.

We have been pursuing the Multi-Franchise Strategy for over 10 years, but there have been challenges, particularly in Vietnam, and our overall ROE remains relatively low. Our priority is to achieve stable profits first. I do not see it as a simple choice between the strategy and shareholder returns. By improving profitability of the Multi-Franchise Strategy will naturally lead to a stronger focus on shareholder returns through overall capital policy. However, we do not plan large-scale investment in Asia going forward.

Q6. What are the potential risks of doing business in India?

A6. The situation in India and Pakistan is coming to an end, but as an emerging country, macro risks, including political risks, still exist. There is also uncertainty about future banking regulations. Aware of these risks, we decided to invest because we believe in India's potential.

Q7. The interest rate environment has changed from the time when ROA was higher than the current situation in the past. How can ROA be improved in the future?

A7. The main driver will be a decrease in low-profit government financial institution bonds and an increase in the share of SMEs. The former is a low-profit asset in Rural Infrastructure Development Fund (RIDF) which stems from falling short of the Priority Sector Lending Regulation during the period of deteriorated business performance. ROA will gradually improve as the fund redeemed and replaced with a regular loan in the future. For the latter, profitability will improve in the future by increasing the proportion of SMEs with higher profit margins than large companies and firmly managing risk. In addition, YES BANK has an advantage in the commission business, with a strong service such as settlement operations, resulting the ratio of net interest income to fee income is roughly 6:4.

Q8. YES BANK's rating is Ba3. Do you expect a situation where YES BANK requires financial support from SMBC in the future?

A8. We hope that our decision to make YES BANK an equity-method affiliate will improve its creditworthiness overtime. They may need capital enhancement, not for turnaround, but as they enter a growth phase. While nothing has been determined yet, we would naturally discuss and evaluate such a situation if it arises.