Major Q&A at SMBC Group's Sustainability Initiatives

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Q1 How do the Sustainability Committee, Risk Committee, and Audit Committee collaborate effectively? How do these committees share information and integrate it into the risk management framework, given the various risks emerging across different regions?

A1 <Ms. Sakurai> The collaboration, independence, and relationship with the Board of Directors have significantly evolved since SMBC Group became a Company with Three Committees, and they are now functioning effectively. For example, both the Risk Committee and the Sustainability Committee include several external experts, enabling deeper and more comprehensive discussions. Additionally, the Audit Committee frequently engages in detailed discussions about the issues debated in each committee. Furthermore, to ensure high-quality discussions at the Board of Directors, even among members not part of a committee, measures have been implemented to effectively convey key points from committee discussions. Moreover, a large volume of e-mails is regularly shared with outside directors, allowing us to swiftly coordinate with the Secretariat and make decisions when urgent issues arise.

<Ms. Rogers> Discussions about risks are notable frequent among the directors. Risk scenarios and policies for addressing risk factors are reported regularly, considering the magnitude of the risks involved.

Q2 What specific measures are being taken regarding "risk-taking in new energies and new technologies"?

A2 <Mr. Takanashi> In project finance within new fields, we conduct demand-side market analysis and contract verification for collateral assets, as we do for conventional projects. However, we also place emphasis on evaluating technical risks, leveraging third-party organizations to enhance our approach. Additionally, we are strengthening our engagement with the government more than ever before, considering the potential for regulatory changes and the importance of subsidies in ensuring profitability.

Q3 What challenges do you see from a supervisory perspective regarding decision-making in overseas growth investments, as well as post-merger integration (PMI) and evaluation?

A3 <Ms. Rogers> When evaluating investment projects, I focus on aligning with SMBC Group's global strategy. It is crucial to assess not only the return on invested capital but also how much the investments contribute to achieving our strategic goals. For follow-up after investment, it is necessary to establish a solid system to regularly monitor investee status and evaluate capital efficiency. Regarding our recent investment in YES BANK in India, multiple briefing sessions were conducted for outside directors beforehand. We were able to agree on the investment with a low Price to Book Ratio (PBR) without an excessive premium. I also recognize that the commercial banking business in India is the last missing piece in our Multi-Franchise strategy, making it vital for SMBC Group. Going forward, we will continue to thoroughly discuss the rationale of each project, considering investment returns and consistent alignment with SMBC Group's strategy.

<Ms. Sakurai> It is true that some of our past investments have not met expected outcomes. To better analyze and evaluate growth investments, outside directors are provided with opportunities to attend lectures by experts on the macroeconomic conditions of potential investment countries. We also receive detailed explanations of growth strategies for each business segment. Furthermore, human resources are also important. We maintain regular contact with local management and support the development of talent in Japan who can manage investee companies. Through these measures, we aim to support important decision-making while enhancing our own ability to assess the value of investment projects. Regarding PMI, we have the opportunities to monitor progress in specific areas and receive reports on our Multi-Franchise strategy portfolio as a whole periodically.

<Mr. Anchi> Adding the perspective of the executive side, impairments indicates that the synergies initially anticipated were not realized, reflecting the fact that our approach to PMI was insufficient. Previously, the teams who considered investments and those responsible for executing PMI were separate, but a few years ago, we shifted to a structure where the teams

considered investments directly conduct PMI on-site. Additionally, we have transitioned from the earlier approach, where the headquarters used to assess the business plans reported by the investees, to a more hands-on approach where we engage directly on-site, observe the market, and formulate business plans together. We take the impairments on investments in Indonesia and Vietnam very seriously. In response, direction of top management emphasize not only applying stricter discipline at the entry stage of investment but also making significant improvements by engaging more thoroughly on-site for PMI than ever before.