

MESSAGE FROM THE GROUP CEO

# Building the Path to our Future

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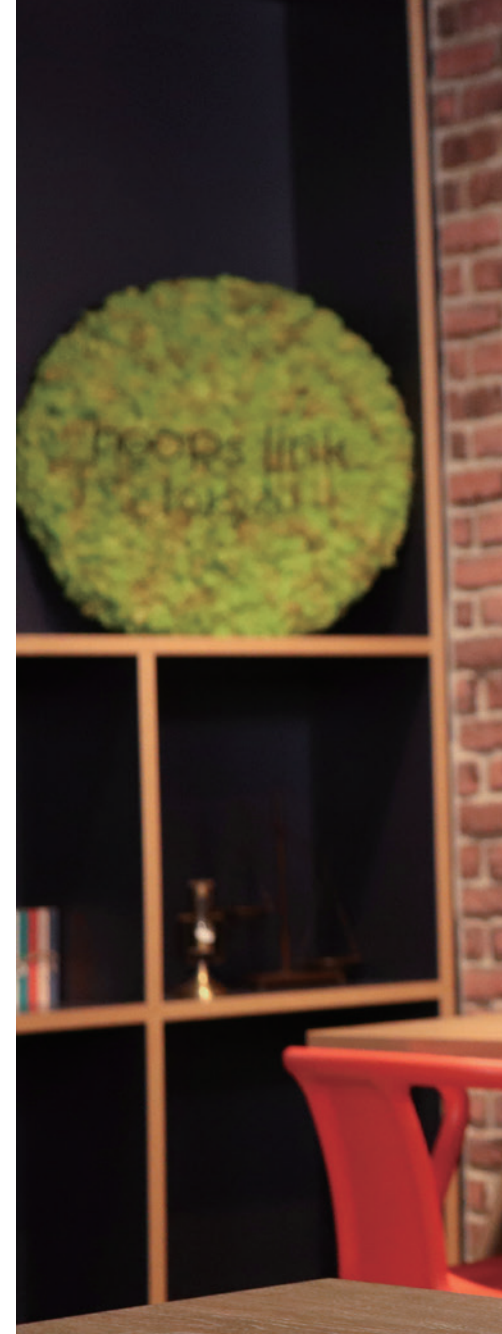
Director President and Group CEO



## Overcoming the “Unexpected”

Our world is undergoing fundamental change. We have seen COVID-19 spread to all corners of the globe in what seemed like the blink of an eye, and the virus continues to wreak havoc on an unprecedented scale. No one could have possibly foreseen the scale of disruption COVID-19 would have on our lives at the beginning of the year. “Unexpected” is a fitting description of COVID-19 and its global impact. However, I feel that circumstances described as “unexpected” have increased over the past few years. Natural disasters of a scale previously occurring only once in a 100 years are occurring on a seemingly annual basis. The results of the 2016 United States presidential election and the United Kingdom European membership referendum overturned prior expectations.

While it is easy to merely dismiss these events as unexpected, we need



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SMBC Group's Response to  
COVID-19



to ask ourselves if they really were. Before the COVID-19 pandemic, humanity battled and defeated numerous new infectious diseases, such as cholera, smallpox, and SARS. Thus, the speed and scope at which COVID-19 has spread can be viewed as a negative aspect of globalization, an ideal that we have all benefited from, coming to rise. Similarly, global warming lies behind the intensification of natural disasters, and the rise of populism has its roots in the fact that frameworks, such as democracy, which served as the foundations of economic growth in the post-war era have become outdated in their current format. The point I am trying to illustrate is that the events which we have witnessed over the past few years would most likely have occurred in some form or format eventually. In order to realize sustainable growth, SMBC Group must strive to become a more sophisticated organization, capable of

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evolving our business model constantly so that we can continue to prosper even when the business environment undergoes rapid and extensive change due to a black swan event.

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***Business leaders must be able to accurately identify medium- to long-term trends by keeping calm and viewing matters from a bird's-eye view, even though the world may be in the midst of major upheaval.***

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However, we must keep in mind that overreacting to these risks or allowing our awareness of them to become distorted could cause us to misread how the world is changing or what our business vision should be. The COVID-19 pandemic is said to have sparked a fundamental change in peoples' values, but I believe that it is during times such as these that we must take a long and careful look at what we change and what we keep untouched. The further acceleration of digitalization to realize "Society 5.0" is the key example of how our world will change. For example, we are seeing an increasing number of customers using online transactions as part of their efforts to prevent the further spread of COVID-19. The number of SMBC's customers engaging in online transactions increased by 36% year-on-year and digital contracts concluded using services provided by SMBC CLOUDSIGN experienced a dramatic 10-fold month-on-month increase following the Government of Japan declaring a state of emergency in April 2020. I expect for online transactions to continue gaining popularity even after COVID-19 is brought fully under control given its superiority in terms of convenience and cost-efficiency, not to mention that the benefits of those services will increase given the ripple effect of additional users. On the other hand, lifestyles, habits, and family and work-related values that have developed over hundreds, if not thousands, of years will not be so easily changed. For example, is it possible to provide optimal solutions that address customer needs without engaging in face-to-face communication? Is it possible to pass-on SMBC Group's corporate culture to junior employees or ensure their proper professional development without person-to-person interaction? Such concerns require serious and in-depth consideration. Business leaders must be able to accurately identify medium- to long-term trends by keeping calm and viewing matters from a bird's-eye view, even though the world may be in the midst of major upheaval.

## Steering a Supertanker

Innovation is the key to successfully overcome changes in the current business environment, as innovation is what allows for the creation of a strong yet flexible organization that continuously evolves its business model. People often associate the term innovation with the image of a genius experiencing an epiphany and discovering a new concept or vision. However, this is not always the case. In order to pursue sustainable growth, it is crucial to develop a corporate culture which encourages all employees to be unafraid of failure and continue attempting to create new business opportunities so that small improvements are realized throughout SMBC Group.

For this reason, ever since I was appointed Group CEO in April 2019, I have urged employees to “Break the Mold” and proactively pursue new challenges without being bound by precedent or fixed ideas. I have assigned management resources to employees who have stepped forward and established new companies for them to lead. So far, nine companies have been established in such a manner, and I will continue to encourage in-house business ventures as part of my CEO production project. The introduction of a free dress code policy which received considerable media attention was also aimed at changing the mindset of employees. I want to establish a transparent and encouraging corporate culture that allows employees to freely pursue their dreams and aspirations.

Making this vision a reality however is by no means an easy task. There will be employees who hesitate, fearing their careers could still be negatively impacted even though the Group CEO’s message is to be unafraid of failure, and many people will view change as an inconvenience rather than as an opportunity. Therefore, I will continue to encourage employees who are pursuing new challenges by repeating my message and building a track record of successful inhouse business ventures. Even when employees are not successful in their efforts, I will not blame them. Rather, I will praise them for their bravery and determination.

SMBC Group is made up of one hundred thousand employees who are located throughout the world. So, in terms of size, you could say that SMBC Group is like a supertanker. When you attempt to change the direction of such a large vessel, those changes may appear to be slow and gradual. However, once the correct direction has been set and we begin the journey towards our goals, I promise you that the momentum we witness will be phenomenal.

## Becoming a Global Solutions Provider

So where should we direct our supertanker? In April 2020, we established SMBC Group’s new vision: “A trusted global solution provider committed to the growth of our customers and advancement of society.”



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*Break the Mold*

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This new vision reflects our commitment to realizing the sustainable growth of SMBC Group by providing top tier solutions on a global basis, not only by further honing our capabilities in the financial sector, but also expanding into non-financial sectors so that we can better address the needs and issues of customers and of society.

There are three key themes that we must adhere to in order to realize this vision.

### Data Oriented

The first theme is data oriented.

Information and data are very valuable assets which are not represented in a company's balance sheet, and businesses around the world, not only those in the financial sector, are striving to monetize these assets. Going forward, how well a company can monetize information assets and incorporate them into its P/L will be the key to success. In addition to accumulating a vast volume of payment and credit information through our various business lines which include banking, securities, and consumer finance, SMBC Group also possesses top tier capabilities in personal data protection and online security, two issues which must be addressed before utilizing data.

For example, Sumitomo Mitsui Card released "stera" a payment platform that provides all the necessary functions to facilitate cashless payment transactions. At the same time, it released "Custella" a service which supports clients in planning management strategies, developing new products, and creating new marketing strategies by using AI to analyze the payment data that is accumulated via the platform. If we can further develop such services, it will allow us to engage in a variety of new "data +α" businesses, for example personnel data trust banking, advertising, and personalized marketing that targets individual customers.

### Building Platforms

The second theme is to build platforms.

Through bank deposits and payment services we have established relationships with corporate and individual customers both in and outside of Japan. By leveraging this robust customer base that is based on many years of mutual trust, SMBC Group can build platforms which provide a variety of services with its capabilities in the financial sector.

I am not concerned about the principle of self-sufficiency in our efforts to enhance our platforms. In the unbundling of financial functions, I think that it is only natural that players from outside the financial sector take over some of those functions. I view companies from outside the financial sector,

not only as rivals with whom we engage in healthy competition, but also as partners whose capabilities complement ours and vice-versa. For example, SMBC Group recently established Plari Town, Inc., a digital platform that supports the digitalization of mid-tier companies and SMEs, and we are working to swiftly enhance the value of the platform by including various services provided by external partners. We will strive to create an ecosystem that creates business opportunities involving not only SMBC Group and our customers, but also between customers themselves, by collecting various information as a result of our platform securing an ever growing customer base.

### Solutions Provider

The third theme is to become a solutions provider.

Customer needs are becoming increasingly diverse and sophisticated, and SMBC Group must become our customers' most trusted business partner who can provide solutions to a wide range of issues. Let us take Japan's aging society as an example. When a financial institution considers potential measures to address the needs of an aging society, a common approach is to consider the types of financial products, with the focus being on existing products, that can be used to build customers' post-retirement asset portfolios. We need to break-out of this outdated method of thinking. The concerns of elderly customers are not limited to building-up their post-retirement assets, they include a range of issues, such as nursing and health care, the passing on of assets to the next generation, and relations with family members. We cannot allow ourselves to view potential solutions based on the narrow perspective of wealth management products and loans. Rather, we must identify all the issues that our customers are facing and work with companies from outside the financial sector to provide solutions which add true value.

### Concepts Behind the New Medium-Term Management Plan

We launched a new Medium-Term Management Plan in FY2020 to take the first step to realize this vision and begin our journey to build the future of the financial sector. The preparation of the new Medium-Term Management Plan included more than one year of deliberations in an all team's effort including mid- and junior-level employees. While the impact of the COVID-19 pandemic was certainly not part of the deliberation process, the new Medium-Term Management Plan was prepared based on the understanding that our business environment would be challenging with irreversible structural changes, such as climate change, our shrinking mother market, and the rise



## P053

*Corporate Service Digital Platform*



## P052

*Group-Based Comprehensive Solutions*



## P026

*Core Policy of the new Medium-Term Management Plan*

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of geopolitical risks as demonstrated by the US-China trade war. I am fully confident that the Plan contains well thought-out strategies which will allow us to overcome any adversities we may face and realize further growth. This is why we will proceed without any doubt or hesitation, even though we are facing many challenges, both foreseen and unforeseen.

We established the following three core policies as part of the Medium-Term Management Plan: Transformation, Growth, and Quality.

First, so that we may emerge victorious from this challenging business environment, we will devote our utmost efforts to continue restructuring our business model and cost structure. In the previous Medium-Term Management Plan, we concentrated on enhancing productivity by establishing Discipline and Focus as core policies. In the new Medium-Term Management Plan, we took these policies one step further to “Transformation”, and we will increase profit by engaging in the fundamental transformation and streamlining of our business model.

For example, for cost control our goal is to realize cost reductions of ¥100 billion, double our target for the previous Medium-Term Management Plan, by reforming domestic businesses, reorganizing our domestic retail branches, and integrating group operations. In addition, we will continue to reduce unprofitable assets and strategic shareholdings as part of our efforts to optimize risk-weighted asset management.

On the other hand, while we were still in the process of accumulating capital in the previous Medium-Term Management Plan, we have now reached our CET1 ratio target which will allow us to utilize capital and other management resources in the New Medium-Term Management Plan. As such, we will decisively allocate capital to business sectors for which medium- to long-term growth can be expected.

For example, in our inorganic strategy, while being disciplined we will use surplus capital to proactively pursue opportunities to acquire businesses and portfolios with high capital and asset efficiencies, in addition to business platforms to realize medium- to long-term growth. In addition, ¥100 billion has been allocated as “CEO Budget” for IT related investments. This framework will allow for agile investments to be made in businesses, such as digital-related enterprises and cashless payments, that are deemed to have potential for significant future growth.

Quality is the core policy that applies to our management base. We will work tirelessly to strengthen our management base so that we may meet the expectations of our stakeholders as a global financial group, for example accelerating sustainability management, realizing human resource management that allows for personnel to realize their full potential, and further enhancing our Risk Appetite Framework to promote appropriate risk taking.

Presently, on a core earnings basis our bottom-line is approximately ¥640 billion. In the previous Medium-Term Management Plan, our bottom-

line exceeded ¥700 billion for all three years due to reversal of provisions from large borrowers and gains from the sale of strategic shareholdings. However, I am by no means satisfied with this profit level. In the new Medium-Term Management Plan, through our seven key strategies we will strive to increase consolidated net business profit by ¥100 billion and realize a core earnings bottom-line of more than ¥700 billion in the final year.

## Seven Key Strategies

We will focus on our seven key strategies to realize our goal of raising our profit level on a core earnings basis. I will introduce two key strategies which I feel best characterize the core policies of Transformation and Growth as the heads of our respective business units will discuss the details of their specific strategies in the later sections of this report.

### Pursue Sustainable Growth of Wealth Management Business

Given Japan's declining population, in order to realize sustainable growth of our retail business we need to focus management resources on growth areas while simultaneously enhancing efficiencies. In regard to enhancing efficiencies, we are reforming our cost structure while preserving, if not improving, the customer experience by further developing non-face-to-face channels, for example online services, and improving the productivity of face-to-face transactions by reorganizing our domestic retail branches. For high-net-worth customers possessing minimum assets of ¥2 billion, we have consolidated our banking, securities, and trust banking services under the new brand SMBC Private Wealth. In addition to wealth management products which reflect our unique strengths, SMBC Private Wealth offers customers a comprehensive line-up of solutions including business succession consulting, trust banking, and concierge services. For mass affluent customers we will engage in personalized marketing by analyzing their transaction data so that our proposals fit their preferences and lifestyles. Through these efforts we will grow our top line revenues while lowering the break-even point of our wealth management business.

### Expand our Franchise in Asia

Under our Multi-franchise strategy, we have devised and implemented initiatives based upon a time span of ten, twenty years in order to build a second and third SMBC Group in Asia's developing economies. Indonesia, a key market in our Multi-franchise strategy, is expected to see its economy grow at a slower rate due to the COVID-19 pandemic. However, there are three commitments we made when we were formulating our strategy. First is to become a full-line financial services provider in the target market, second is that the franchise would have a strong home-market focus with



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*Group Structure*



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*Wealth Management Business*



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*Expand our Franchise in Asia*



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its foundations firmly embedded in the local economy, and third is that we would not retreat even when faced with changes in the business environment. When we experience a sudden downturn in the economy, such as our current situation, companies often consider the possibility of exiting foreign markets given that such circumstances lead to a renewed focus on their respective mother markets. However, it is not possible to grow together with developing markets if we take such an approach. As such, we will not retreat, even in times of economic downturn, and we will construct a robust business base by establishing firm relationship with markets, such as Indonesia, where GDP is expected to grow over the medium- to long-term. Going forward, in addition to expanding our Multi-franchise strategy to India and the Philippines, we will enhance the overseas presence of our securities, leasing, and consumer finance businesses so that we can reach the next stage of growth and development as a full-line financial services provider.

### To our Stakeholders

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I will now share my commitment to our stakeholders, which extends beyond the term of the new Medium-Term Management Plan.

### Supporting our Customers' Future

Our first and foremost focus is to support customers who are suffering from the adverse effects of COVID-19. As part of our efforts to provide undisrupted financial services that are indispensable to our customers' everyday lives, we have kept open all SMBC branches by taking necessary safety measures. In addition, we have taken a flexible approach in order to support the cash flow needs of individual and corporate customers, for example introducing loans with special interest rates and extending repayment schedules. SMBC Group will fulfill its responsibility as part of society's infrastructure so that our customers and society itself can return to normal at the earliest possible date.

"Data oriented" "Build Platforms" and "Solutions Provider" have been established as the key themes which SMBC Group will pursue. These themes were decided following a careful analysis of what the future role of financial institutions will be based on the future direction we envisioned our customers pursuing. I want SMBC Group to become a proactive solutions provider that is consistently prepared to extend optimal support to customers once they decide upon a course of action.



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*Customer-Oriented Initiatives*

## Creating a Work Environment Where Employees can Pursue Their Dreams with Confidence and Ambition

First, I would like to express my sincere appreciation to all of our employees who are working tirelessly to ensure that SMBC Group is able to continue offering uninterrupted financial services which are indispensable to our customers' lives amidst the havoc caused by COVID-19. I have a responsibility to protect the health and wellbeing of all of our one hundred thousand SMBC Group employees, and failing this responsibility will have serious repercussions, including the possibility that we may no longer be able to provide a full range of financial services. Management will continue to extend the maximum level of support to employees, such as the thorough implementation of infection preventive measures at branch offices and carrying out initiatives aimed at ensuring employees' physical and mental wellbeing, so that they are able to carry-out their responsibilities with confidence and peace of mind.

In addition to the above, I want to create a work environment where employees can pursue their dreams with confidence and ambition. When establishing HR frameworks, for example to enhance employee engagement or to support employees in challenging themselves, we cannot forget that establishing frameworks is not the goal. Frameworks are merely tools to help us achieve our true objectives. In order to transform SMBC Group into a vibrant and energetic organization, in addition to building the corporate culture which I have just shared with you, we are also developing an internal SNS system. The goal is for SMBC Group employees, irrespective of their assigned country or department, to communicate daily and offer encouragement when a colleague puts forth a new idea. The focus must be on what we can do rather than what we cannot. I want to create a workplace in which innovation is a natural result of employees carrying out their duties with a sense of fun and purpose, even under the challenging business environment we are currently facing.

## Building a Sustainable Society with our Customers

SMBC Group defines sustainability as: "Creating a society in which today's generation can enjoy economic prosperity and well-being and pass it on to future generations." In recent years, we are seeing environmental and social issues, for example climate change due to global warming and human rights violations resulting from the establishment of international supply chains, on a global scale. Given this backdrop, the expectations placed on financial institutions to address such developments are extremely high given our business allows us to act as a hub connecting various industries.

In April 2020, we launched the SMBC Group Statement on Sustainability ("the Statement") and established SMBC Group GREEN×GLOBE 2030, a ten year plan that extends to 2030 through which we will realize the objectives of the Statement, so that we may remedy social issues through our business and further enhance our SDG-related initiatives. Specifically speaking, for



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Human Resources Strategy



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Sustainability Management

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environmental goals a target of ¥10 trillion has been set for Green Finance and a 30% reduction in SMBC's CO<sub>2</sub> emissions, while for social goals we will hold financial literacy education sessions for 1.5 million participants aimed at realizing financial inclusion and expand retail financial services in Asia's emerging market economies. Furthermore, for governance goals, we will tirelessly pursue the enhancement of our corporate governance and risk governance capabilities as they are the foundations upon which sustainability management is built.

However, there is a limit on what we at SMBC Group can accomplish by ourselves. What is important is that we create a sizeable, cohesive movement by involving retail and corporate customers. SMBC Group recently launched GREEN×GLOBE Partners, a community platform that aims to solve environmental and social issues. Through the platform, SMBC Group will work with customers to realize a sustainable society by hosting seminars and facilitating the exchange of information concerning the environment and society, assisting participants in connecting with each other, and initiating projects that contribute to solving social issues.

### **Maximizing Shareholder Value from both Financial and non-Financial Perspectives**

Under the previous Medium-Term Management Plan, we launched initiatives aimed at enhancing shareholder returns. We realized a dividend increase of ¥40 over the three years covered under the previous Medium-Term Management Plan and increased our dividend payout ratio from 30% to 37%. We also completed share buybacks totaling ¥170 billion. There is no change to our commitment to enhancing shareholder returns in the new Medium-Term Management Plan. Dividends will remain our principal approach to shareholder returns, and we will also continue our flexible approach to share buybacks. While we are currently facing a challenging business environment due to the COVID-19 pandemic, we will steadily carry-out the business strategies established under the new Medium-Term Management Plan and over the next three years we will strive to grow our bottom line and realize a dividend payout ratio of 40%.

In addition to enhancing the quantitative and financial returns which I have just shared, I am fully aware that enhancing the long-term non-financial value of SMBC Group is equally as important to our shareholders. We will enhance the non-financial corporate value of SMBC Group by focusing on adding value to customers via the three key themes and ESG-related initiatives aimed at realizing a sustainable society. We will continue to proactively disclose both financial and non-financial information so that we can minimize any differences in the information available to our shareholders and SMBC Group, and decrease the cost of shareholder's equity in order to realize the sustainable growth of shareholder value.

## Building the Path to our Future

The Daoist text Liezi from China's Warring States era contains the fable "The Foolish Old Man Removes the Mountains," and its message is one of my favorite mottos. Once upon a time in China there was an old man called Yu Gong who lived at the foot of two very high mountains. As the two mountains were a hindrance to Yu Gong and travelers passing by his house, Yu Gong one day decided to level the mountains. Yu Gong's neighbors mocked him, saying that he was a fool and that he would never accomplish the task during his lifetime. Yu Gong, however, replied that upon his death his son would carry on the task, who then would be succeeded by his grandson, and that the mountains would eventually be leveled if Yu Gong's family never gave-up. Upon hearing this, the heavens approved of Yu Gong's determination and moved the two mountains. The fable illustrates that perseverance will eventually allow us to accomplish any task, regardless of its size.

We are witnessing the contraction of the global economy and irreversible structural changes. Although we must operate under a very challenging business environment, I have no doubt that by tirelessly working towards the realization of our vision, we too can move mountains and build the path to a bright future for the financial sector. I would like to ask for the continued support and understanding of all our stakeholders as I will stand at the forefront of our efforts to lead SMBC Group to new levels of growth and prosperity, with each and every one of our employees devoting their utmost efforts to accomplish this goal.

