Major Q&A at SMBC Group IR Day 2023

1. Retail Business Unit
Takashi Yamashita, Senior Managing Executive Officer

Q1. What are the competitive advantages of Olive and how much profit contribution are expected?

A1. Olive is a digital platform where various financial services can be used seamlessly in one application, such as credit cards, securities, insurance, etc. We have established a competitive edge by transforming bank accounts into a full mobile "digital service," with world-class services such as flexible pay which will set us apart from online banks. Olive can achieve higher profitability per account with higher credit card usage as well as increase in deposits and cross-selling securities and insurance. Number of customers is increasing steadily and we aim to have them use Olive effectively at an early stage. Olive's innovation lies in its function that connects "digital" and "real"; we will enhance customer touch point and reduce cost by reorganizing our retail branches and develop " STOREs."

Q2. How will you improve net business profit in the current Medium-Term Management Plan?

A2. We plan to increase our net business profit by JPY 65 bn over the three years: JPY 75 bn in the wealth management business and JPY 40 bn in the payment business / consumer finance, offsetting structural losses in mortgage loans and increase in digital investment. The main growth driver in the wealth management business is profit from fee-based AUM, planning JPY 5 tn increase in AM and foreign currency deposit balances. In the payment business, we will aim for an increase in cross-selling by leveraging the strengths of our products and services, such as Olive, numberless cards, and stera. In consumer finance, we have been able to capture the increasing needs due to the recent recovery in individual consumption and I expect this to continue for the time being. While expenses will increase due to the expansion of payment business, we aim to reduce base expenses by JPY 20 bn, mainly through CRE cost reduction.

Q3. What is the policy on mortgage loans?

A3. A mortgage loan is the one of the most significant financial events for retail customers and supporting this is an extremely important role for us as a financial institution. Many customers switch their main bank due to mortgage loans, which presents a great opportunity for long-term transactions with our bank. I believe that we can create business opportunities while enhancing the lifetime value of our customers by providing various added values throughout the long repayment period.

2. Wholesale Business Unit
Muneo Kanamaru, Senior Managing Executive Officer

Q1. What are the initiatives to improve loan spreads?

A1. Improving loan spreads is not easy given the prolonged low-interest rate environment, but it is absolutely important to continue negotiations with each client to secure appropriate spreads. On top of that, we will improve overall profitability by allocating RWA for loans with higher spreads (e.g. loans for business reorganizations, real estate, startups, etc.) and expanding our fee business.

Q2. How much profit contribution do you expect from sustainable finance?

A2. We aim to increase the amount of sustainable finance to JPY 4.7 tn in the current Medium-Term Management Plan from JPY 3.8 tn in the previous plan period, including both of loans and bond underwriting. The target of JPY 4 bn increase in net business profit also includes not only loan income but other group solutions, such as the appointment of SMBC Nikko Securities as a financial advisor. Our performance is exceeding last year's progress at present and we will continue to strengthen our engagement with clients.

Q3. What insights were gained by introducing ROE metrics on branch basis and what effects are expected going forward?

A3. We aim to improve each branch's understanding towards profitability and accelerate initiatives to improve it by visualizing the ROE and other profitability indicators of each branch. We have observed that branches that have large-scale clients have been able to secure more profitability in areas such as M&A finance and real estate finance. I want each branch to focus on improvements of its own branch over time rather than comparing with other branches, given that each region has a different market environment. Profitability across the entire business unit can be achieved by improving profitability of every branch through better allocation of human resources and RWA, as well as existing initiatives.

Q4. Do you consider accelerating the pace of reducing equity holdings?

A4. We have revised our plan to reduce book value by JPY 200 bn over three years, adding JPY 80 bn and extending the original plan by one year. We have been selling the shareholdings based on consents of clients; there is more understanding from the clients thanks to the Corporate Governance Code. We aim to accelerate the reduction speed and exceed the revised plan as much as possible. We will work on reducing the market value as well: less than 20% of consolidated net assets during the next Medium-Term Management Plan period.

3. Global Business Unit
Tetsuro Imaeda, Deputy President and Executive Officer
Keiichiro Nakamura, Senior Managing Executive Officer

Q1. What is the progress of the collaboration with Jefferies and the future outlook?

A1. We strengthened our partnership and established a joint marketing system in April 2023. We are collaborating in ECM and M&A advisory services, mainly for IG clients of the SMBC Group. Both companies' marketing departments have begun jointly approaching targeted clients and several deals have been already closed. The impact from synergy with Jefferies is incorporated into targets of the entire CIB business. I believe that there is plenty of room for growth in the future if we can produce sufficient results under the current Medium-Term Management Plan.

Q2. What is the current status of the multi-franchise strategy?

A2. We have built full-line financial service from retail to wholesale in four target countries (India, Indonesia, Vietnam, and the Philippines) and have a diverse portfolio. Although each of these emerging markets is volatile, I believe that we can achieve a stable overall performance by effectively managing the portfolio. In India, demand for new loans has been increasing due to recovery from COVID-19. In Vietnam, as mass retail customers, the main customer base of FE Credit has been damaged due to economic slowdown, we are taking prompt action to improve the situation. In Indonesia, we are finally seeing good results of strengthening our business infrastructure for about 10 years. In the Philippines, we expect to accelerate growth through knowledge sharing and customer referrals. Although business situation varies by countries, I believe we will be able to achieve a stable business performance.

Q3. How much profit contribution is expected from the U.S. digital bank?

A3. I believe that the U.S. digital bank will be able to generate <USD 500 mn of bottom-line profit after 10 years. Initial cost including system investment and marketing costs should be substantial in the first 4-5 years from the launch. However, I expect the speed of acquiring customers to accelerate and the business to gain growth once we have built up extensive product lineup and stable business portfolio.

Q4. How will you achieve both increasing asset and improving profitability?

A4. We have specified unprofitable asset by calculating asset and capital efficiency of each business line, which is about 35% of the total Global Business Unit's assets. We will work on improving profitability by acquiring comprehensive transactions and replacing assets to increase ROCET1 by +1% to 8%. On the other hand, increasing net business profit is also important to avoid shrinking equilibrium. We will nimbly allocate RWA to both expand assets and improve profitability by analyzing risk return and targeting business areas and/or client bases.

4. **Global Markets Business Unit**
Masamichi Koike, Senior Managing Executive Officer

Q1. Do you consider shifting Bank of Japan (BOJ) current account deposits to investments in JGBs?

A1. JGBs would be gradually attractive when the BOJ changes its monetary policy and domestic interest rates rise. However, to minimize future unrealized losses, it is important to accurately estimate how much the interest rate will be raised and appropriately control the risk amount. In terms of the timing, I personally believe that BOJ does not need to change its policy immediately, given that the U.S. and Europe have ended up raising interest rates behind the curve.

Q2. How do you manage unrealized losses of foreign bonds?

A2. We manage unrealized gains and losses as a whole portfolio, including foreign bonds, JGBs, foreign stocks, Japanese stocks, and other investment products as well as loans and deposits. Even though the risk amount of foreign currency interest rates is now controlled at a minimum level, we have been able to steadily generate profit through nimble daily operations.

Q3. How is the collaboration with Jefferies under the global strategy of S&T?

A3. In general, it is important to maximize the strengths of each party in partnerships with other financial institutions. Our partnership with Jefferies has been strengthened, as stated in the press release. I believe that we can deepen our collaboration in order to provide better services and solutions to our clients.

5. CFO session
Fumihiko Ito, Senior Managing Executive Officer

Q1. How will you improve PBR?

A1. We are trying to improve our PBR, both with ROE and expected growth rate. To improve ROE, we are further strengthening our efforts to shift to high-profit assets, reallocate our business portfolio, strengthen non-asset businesses, and reduce expenses. To improve expected growth rates, we will focus on realizing past investments under our Multi-franchise strategy and showing non-financial growth by creating social values. We will also reduce capital costs by enhancing the stable profit structure and the transparency of governance and improving both financial and non-financial disclosures.

Q2. How will you balance shareholder returns and investment for growth?

A2. Our basic capital policy in the current Medium-Term Management Plan remains unchanged; to achieve a healthy balance between shareholder returns and investment for growth. Our principal approach to shareholder returns is dividend; we aim to maintain progressive dividend policy by increasing DPS through bottom-line profit growth with a dividend payout ratio of 40%. On top of that, share buybacks should be executed flexibly. Decision to announce share buybacks was held off in May due to the uncertain business environment. However, I believe that our current performance is solid and our CET1 ratio is at a sufficient level enough to consider future share buybacks. A decent amount of capital was allocated to investment for growth in the previous Medium-Term Management Plan. We will focus on the PMI of past investments in the current plan to realize further growth.