



Special Content

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Well-Timed Capital
Funding

profile

Investor Relations Dept.

(left)

Erika Mizuno

(center)

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(right)

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Success in first issuance of perpetual subordinated bonds (Additional Tier1 bonds) among G-SIBs (Global systemically important banks) in the face of headwinds from the write-down of AT1 bonds at a major Swiss financial institution

AT1 bonds are securities equipped with a loss absorbing mechanism by which the bonds are subordinated to other debts in the event of a financial institution's bankruptcy. They are included as "Additional Tier 1 Capital" under Basel regulations. G-SIBs are required by regulation to meet specified capital ratios. AT1 bonds are one important funding tool for the maintenance of soundness.

In March 2023, a management crisis at Credit Swiss, a major Swiss financial institution, led the write-down of their AT1 bonds. Amid growing concern over AT1 bonds, we acted ahead of other G-SIBs to issue AT1 bonds in April 2023. We also issued our first US dollar-denominated AT1 bonds in February 2024.

The first issuance of AT1 bonds among G-SIBs after the Credit Suisse crisis

Mizuno: In March 2023, we announced the issue of yen-denominated AT1 bonds scheduled in April 2023. However, Credit Suisse, major Swiss financial institution, then fell into a management crisis and was acquired by UBS in a rescue deal, with the result that Credit Suisse's AT1 bonds were written down to zero value. This caused a spike in concerns over AT1 bonds in bond market, and forced us to make a decision on whether to continue our issuance.

Morimoto: Given the unclear environment, we faced the risk of failing to raise sufficient funds, and so considered postponing the bond issuance. At the same time, there were concerns that postponement would stoke domestic investors' distrust of AT1 bonds.

Furusawa: We moved forward with marketing activities to thoroughly investigate the reactions of investors before making a decision on the bond issuance. In the past, we had often engaged in dialogue with investors through securities companies. This time, however, we received many inquiries directly from investors about the scheme of AT1 bonds and held face-to-face meetings in response.

Morimoto: In the Credit Suisse case, it's thought that the AT1 bonds were written down because they fell under a debt write-down clause due to the receipt of extraordinary government support from Swiss authorities. Conversely, in Japan, the conditions for the recognition of non-viability which cause write-down of AT1 bonds are clearly specified in law, with government support not among the conditions. We made efforts toward dialogue with investors to gain a correct understanding of the scheme and the risks of AT1 bonds under Japanese laws.

Furusawa: We responded sincerely to every question from investors, that resulted in building relationships of trust and gaining feedback that yielded suggestions. I realized the importance of increasing points of contact with investors and deepening their understanding of our company. Based on this, we're working to actively create opportunities for face-to-face meetings in later domestic AT1 bond issuances. We are also focusing to expand investor base even making visits to investors in regional areas.

Mizuno: Amid growing concerns of AT1 bonds, our issuance attracted strong media attention and we fielded daily requests for coverage, which really seemed heated.

On the other hand, our marketing activities were worthwhile, and investors came to understand the differences between the Swiss and the Japanese AT1 schemes.

We were able to confirm a reasonably calm market reception and decided to issue the bonds as originally planned.

Furusawa: We made timely reports to management about the project. Both CEO and CFO backed us up by saying that the project was important to the financial industry overall in stabilizing the domestic AT1 bond market, and gave us the go-ahead. This really encouraged us.

Morimoto: Ultimately, we were able to raise a total of ¥140 billion under interest rates of 1.879% which non-call period is five years and 2.180% which non-call period is 10 years. We accumulated substantial demand at interest rate levels close to those of AT1 bonds traded in the secondary market at that time, without excessive premiums. When this hit the front page of The Nikkei, I realized that we had accomplished a highly influential project with social significance.



Tackling our first US dollar-denominated AT1 bonds

Furusawa: To expand our investor base and diversify our funding currencies, in February 2024 we issued our first US dollar-denominated AT1. As this was a new product requiring careful preparation, we set up a subcommittee in-house and sorted out issues on the basis of the experience we gained through yen-denominated AT1 bonds. At the same time, we created roadshow materials narrowing down key points to give overseas investors a correct understanding of the characteristics of Japanese AT1 bonds.

Morimoto: In the roadshow, We held web conferences with over 130 investors, spanning Asian to U.S. time zones. Explaining the AT1 scheme to overseas investors is fairly



Receipt of "Yen Bond of the Year" award from IFR

difficult, but I did so by making use of my experience with overseas business trips for debt IR. With Ms. Mizuno, Mr. Furusawa, and other IR members taking turns with me in meetings, we explained the funding strategy and scheme behind our AT1 bonds.

Furusawa: The response from investors in the meetings was positive, and we confirmed their favorable investment stance. Even during the process of determining issuance conditions, strong demand by investors grew, and we were ultimately able to issue the bonds under interest rate conditions nearly flat to those of our yen-denominated AT1 bonds when converted.

I believe that this was the result of overseas investors gaining understanding of Japanese AT1 bonds through deal road shows, as well as recognition of our creditworthiness. Persons with long

experience in the domestic and overseas corporate bond business also praised this as a "great deal."

Mizuno: Our US dollar-denominated AT1 bond issuance was the second by a Japanese bank. When we began our study, there had been no case of issuance by a Japanese bank, so the difficulty of setting appropriate interest rate conditions was one point of discussions. Under these circumstances, we carefully measured the timing for the issuance in pursuit of a better price, despite it being a bold first for a Japanese bank.

It seems as contrasted to our yen-denominated AT1 bonds issuance in April 2023 which was first among G-SIBs after the Credit Suisse crisis. However, we agilely carried out capital funding by comprehensively taking into

account the market environment, investor demand, our strategy, and other factors.

Receipt of prestigious awards at home and abroad

Morimoto: Our yen-denominated AT1 bond issuance in April 2023 was highly regarded by prestigious Japanese and overseas institutions including global financial magazine IFR, Capital Eye, and DealWatch sponsored by the London Stock Exchange Group (LSEG). The issuance won awards, including an award for best yen bond deal of the year.

In SMBC Group, even young employees can be entrusted with work entailing responsibilities. When problems come up, though, bosses and senior employees reach out to help. I was in my fourth year with the company at the time, but with the help of people inside and outside the company, I was happily able to bring a project commanding high global attention to fruition.

Furusawa: The US dollar-denominated AT1 bond issuance was a project involving over 100 people, including experts from securities companies and legal experts. We were able to fully draw out the power of the team and execute our first deal. Further changes in the environment are expected from here on out. By flexibly taking action based on this experience, I want to further plan and execute timely and appropriate capital funding.

Mizuno: For both the first yen-denominated AT1 bond issuance by a major international bank after the Credit Suisse crisis and our first US dollar-denominated AT1 bond issuance, we took action while interacting with daily shifting markets and undertook agile responses and decision-making, all amid an unclear future. I consider these cases as embodying the "Proactive & Innovative" and "Speed & Quality" values inherent in SMBC Group. We will continue to demonstrate the values and strengths of SMBC Group to agilely raise capital while maintaining the soundness that is a key premise for the work of financial institutions.



The Column

Throwing away preconceptions to open up a new path

Kiyoshiro Inoue

Director, FIG Origination Group, Debt Capital Markets,
SMBC Nikko Securities

Corporate bond underwriting is generally carried out under stable market conditions, with risk events avoided to the extent possible. The AT1 bond issuance by Sumitomo Mitsui Financial Group occurred immediately after the risk event in which Credit Suisse's AT1 bonds wrote down, so we had considerable initial worries over what kind of offering we should make as the lead underwriter. However, Sumitomo Mitsui Financial Group made the decision to execute based on impacts not only on the company but on the AT1 bond market overall, taking into account the risk that avoiding the issuance could lead to stagnation in the AT1 market. As the lead underwriter, SMBC Nikko



Securities also remained aware of its position between investors and the issuer, and closely shared information on daily market conditions and comments from investors so we could address wishes for the future development of the AT1 market. I believe that a major reason behind the success of the bond issuance was a spirit of challenge that threw out preconceptions of "it can't be done" and opened up a new path despite difficult conditions. I want to tackle new fields such as composing new products, and hope to be actively involved across organizations in expanding our breadth of business and contributing to the development of SMBC Group.

Delivering proposals that exceed the issuer's expectations

Yusuke Matsui

Vice President, FIG Origination Group, Debt Capital Markets,
SMBC Nikko Securities

While an issuer is a customer, I personally work with a mindset of acting as a "guide runner" who accompanies the issuer in moving toward a shared goal. The US dollar-denominated AT1 bond issuance was a first for Sumitomo Mitsui Financial Group. We built it up from scratch together with Mr. Furusawa, including working together on points that appeal to overseas investors. There were a lot of points for discussion that differed from existing products, and these had to be addressed one by one between the issuer and the lead underwriter. By working closely with Mr. Furusawa, we were



able to accurately grasp the intent of the issuer and smoothly move the deal forward. In tackling work as professionals with a high sense of ethics, we value the word "Integrity" in our company. We kept this word foremost in mind during the project and, as professionals, strove to make proposals that exceed expectations to prepare the optimal issuance conditions sought by the issuer. Drawing on this experience, we will continue to tackle new currencies and products as we aim to be bankers offering depth and breadth.