Major questions and answers at the Investors Meeting Presentation for 1H, FY3/2019 Performance

Q1. How will the capital be used after achieving the 10% CET1 ratio target? Will you be enhancing shareholder returns going forward?

A1. Our basic capital policy is to achieve a healthy balance among securing financial soundness, enhancing shareholder returns, and investing for growth. As for securing financial soundness, we expect the CET1 ratio to reach our target of 10% by the end of FY3/19, which means we will attain our Medium-Term Management Plan target one year ahead of schedule. After that, we will shift gears from prioritizing capital accumulation to entering a stage where capital will be used in a good balance between enhancing shareholder returns and investing for growth.

Dividends will be our principal approach to shareholder returns. In addition, we will proceed with share buybacks on a flexible basis. When our consolidated net income surpasses our target, we will look into the reasonings. If the fundamental earnings strength is rising, we will consider raising dividends. If it is because of a one-time factor, we will consider doing share buybacks as an option.

I want to give you a rough image of how we intend to use our capital going forward. If the current business environment continues and we can generate annual net income of JPY 600 to 700 billion, after deducting dividend payments with the current payout ratio, we will be able to generate surplus capital of JPY 400 to 500 billion each year. This means we will generate surplus capital of about JPY 2 trillion in five years.

In the meantime, capital of JPY 0.2 trillion will be used to raise the dividend payout ratio toward 40%. Furthermore, for organic growth, capital of JPY 0.5 to 0.8 trillion will be used to increase risk-weighted assets with the pace of Japan's nominal GDP growth rate of 1% to 2%. The remaining capital of JPY 1 to 1.3 trillion will be allocated in a healthy balance to in-organic investments for growth and share buybacks.

Q2. Given the increase of uncertainty in the global economic environment, what is your take on investing for growth opportunities?

A2. The conclusion is that it will depend on a deal-to-deal basis, but there are both risks and opportunities. If the business risk increases due to the instability of politics, economy or financial situation, then we need to take those risks into account. On the other hand, there may be deals that will become easier to acquire due to a shorter payback period or higher ROE if the valuation declines. In any case, we will make a decision carefully for each deal in accordance with the three investment criteria outlined in the Medium-Term Management Plan: "fits with our strategy", "ROE of 8% after synergies and amortization of goodwill" and "risk is manageable."

Q3. You have reached the mid-way point of the Medium-Term Management Plan. What will be the challenge for the next year and a half?

A3. In the first half, we made good progress in both strategic initiatives and financial results. For the remaining year and a half, we will continue to work on various initiatives to become a financial group with high quality.
However, in the previous Medium-Term Management Plan, there was a significant change in the business environment due to the China shock that occurred in the mid-way point of the plan. Therefore, I think that the challenge will be to be prepared and build a system that can correspond to unexpected situations promptly by taking risks in an uncertain environment.
Currently, the business environment around us changes much faster than ever before. We also see some changes that alter the way we do our business. Therefore, we intend to carefully assess the nature of the change and promote various measures with a flexible mindset in a speedy manner.

Q4. What is the path to monetization of the cashless payment strategy?

A4. Our strength lies in having two leading credit card companies with different characteristics, i.e., Sumitomo Mitsui Card Company and Cedyna. We already have the top-tier status both in the issuing business and the acquiring business. To further strengthen this competitive advantage, we decided to integrate the entire process vertically: issuing, acquiring and processing. The processing business will be made together with GMO Payment Gateway, which has a significant track record in the online payment market. Through this initiative, we will be able to provide services at a low cost while responding flexibly and promptly to the drastic development of the cashless payment market.

Recently, the card commission rate is on a downward trend in the industry. However, we believe that evolving the cashless payment market as a front-runner will not only expand the market size but also expand our market share. We aim to increase total income by increasing fee and finance income through the expansion of our transaction volume, which will partially offset the impact from the decline in the card commission rate.

Q5. There were reports about a joint ATM operation with MUFG Bank. What is the direction of the ATM strategy going forward?

A5. It is true that we are in discussion with MUFG Bank regarding a joint ATM operation. While the details are under discussion, we consider making non-branch ATMs (ATMs that are placed outside of branches) available to each other's customers. We are making progress with talks so that we can start as soon as possible in FY3/20.

There are currently 1,200 non-branch ATMs at SMBC. The plan is to create a combined network of over 2,000 non-branch ATMs. We plan to close some ATMs that are located close to each other through the process. By this, we believe we can significantly improve the convenience of our customers while reducing costs.

Currently, we are considering many options with MUFG Bank, but we are looking to an open network in which any bank can participate. While there are still many issues to overcome, we aim to build an optimum infrastructure for the banking industry and for the whole society.

Q6. What is the outlook of the domestic loan spread?

A6. We are seeing some signs of bottoming out in the loan spread of new loans in the Wholesale unit of SMBC. Therefore, we expect the loan spread on a stock basis to stop contracting during the next fiscal year. Within the corporate loans, the loan spread on a stock basis for large corporate clients has already become flat or slightly higher than the same month of the previous year impacted by some large-scale deals.

On the other hand, the decline of loan spread in the Retail unit will continue for a certain period of time. There is still a gap between loan spread of new loans and loan spread on a stock basis because the majority is mortgage loans that has a long tenor.

Due to these factors, we believe that the decline in the overall domestic loans will continue for a certain period of time.