

Major Q&A at the FY3/2019 Investors Meeting

Q1. What is your capital policy and approach to shareholder returns?

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, the CET1 ratio reached our Medium-Term Management Plan target of 10% at the end of March 2019, which is one year ahead of schedule. We will shift from a phase where capital accumulation was the priority to a new stage where we can focus on using capital for shareholders returns and investing for growth.

Dividends are our principal approach to shareholder returns and we have adopted a progressive dividend policy, i.e., no dividend cuts and maintaining or increasing dividends. We will aim to achieve a dividend payout ratio of 40% by the end of the next Medium-Term Management Plan. We will also proceed with share buybacks on a flexible basis taking into consideration our earnings trends, growth investment opportunities, share price, and other factors. However, we do not have a specific formula to calculate how much capital we will use for share buybacks.

Q2. Which business area are you looking for as M&A targets?

A2. In our Medium-Term Management Plan, we set the following investment criteria for M&A; (a) to fit with our strategy, (b) to achieve ROE of over 8% after synergies and excluding amortization of goodwill and (c) to be risk manageable.

There are two areas we are considering as targets. The first is business portfolio with high capital and asset efficiency, mainly in the United States and Europe. Aircraft leasing, railcar leasing, and LBO financing, which we acquired in the past are more profitable than the other businesses in our portfolio. We will continue to look for acquisitions of assets that promptly raise ROE.

The second is investment for the future, such as investments toward carrying out the multi-franchise strategy in Indonesia. We recently merged BTPN and SMBC Indonesia to build a full-line commercial bank which operates both the wholesale and retail business.

Q3. What is your view on the global credit cycle?

A3. At this moment, there are no specific regions, industries, or asset classes in our global portfolio that we expect the credit will significantly deteriorate. On the other hand, as the outlook is unclear because of political and geopolitical risks such as the US-China trade war and Brexit, we will respond more swiftly to any sign of changes. We have been improving our credit quality over the past few years, but will be prepared to respond more quickly to changes in the business environment.

Q4. What kind of financial technology are you interested in?

A4. One is AI. We are utilizing AI in a variety of businesses, such as anti-money laundering operations, detecting changes in borrowers' financial status, and providing stock portfolio diagnostic service for individual customers. We will continue to make the most of this technology both in proactive and defensive aspects. Another example is blockchain. While there are some problems to be solved before commercialization, such as processing speed, we think it can be a very useful platform. We are currently conducting demonstration tests on trade transactions using blockchain. I believe that it has potential to improve business efficiency when these platforms are widely used in the future.

Q5. Will you continue to focus on efficiency in the next Medium-Term Management Plan?

A5. We will continue to pursue "Discipline", or efficiencies in the next Medium-Term Management Plan. While we have been able to manage our overhead ratio at a relatively low level, we will continue to work on improving efficiency through digitalization and by consolidating and sharing functions on a group basis. On the other hand, we will be able to use more capital than before to invest for growth including M&A, since our capital policy has entered a new stage. Therefore, we will also take a step forward to look for initiatives to realize sustainable growth in order to avoid entering into a downward spiral.

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