Major Q&A at the 1H FY3/25 Investors Meeting

Q1. What is the background of FY3/25 target upward revision and the outlook for the coming years?

A1. The FY3/25 target announced in May was a reasonably challenging target based on the most likely scenario. This is totally different from our previous approach, where we initially set baseline targets based on conservative assumptions and revised them upward after favorable first half results. Additionally, for FY3/25, we decided to take advantage of higher-than-anticipated profits, mainly from gains on stocks, to enhance future profitability and improve ROE. This includes a radical allowance for interest repayment at SMBC Consumer Finance and a strategic reallocation of our business portfolio, emphasizing the reductions of low-profitable assets.

However, upon reassessing our full-year outlook, we confirmed that results are exceeding expectations, because our core business remains solid primarily due to strong domestic business performance. Furthermore, we have accelerated the reduction of equity holdings and secured consents to sell stocks with significant unrealized gains, expecting over JPY 400 bn in gains on sales for the full year. As a result, we have raised our bottom-line target for FY3/25 by JPY 100 bn to JPY 1.16 tn.

Initially our FY3/26 target was set in the mid-JPY 1.1 tn range, but I am now confident that we are positioned to exceed JPY 1.2 tn. We will thoroughly evaluate the sustainability of our current momentum and external conditions, aiming to announce the updated target in May next year after comprehensive internal discussions.

Q2. What is the current status of each business?

A2: Japanese economy is finally moving towards regrowth, evidenced by increased corporate DX/GX investments and a shift from savings to investments with the new NISA program. Alongside rising interest rates, these factors provide a significant tailwind for us. In the domestic wholesale business, heightened corporate activities are driving loan growth and boosting fee income. In the domestic retail business, our wealth management business is performing well, and our customer base is steadily expanding through Olive. We expect an upside in deposit income due to rising interest rates, along with growth in credit card fees and finance income from the expanding cashless payment market. We aim to accelerate growth by broadening financial and non-financial services and encouraging main account usage.

In overseas, while reducing low-profitable assets, we are selectively increasing loan balances through profitability-focused initiatives, thereby improving loan spreads. Our collaboration with Jefferies is also steadily accumulating joint deals.

Q3. How is the progress of reducing equity holdings?

A3: We achieved our current target to reduce book value by JPY 200 bn within the three-years of the Medium-Term Management Plan in just one and a half years. This accomplishment was driven by two key factors: 1) our intensified efforts to accelerate reductions and 2) a change in our clients' stance in response to the the Tokyo Stock Exchange and investors' requirements for more capital cost-conscious management.

Under the new plan, we will reduce equity holdings by JPY 600 bn over five years, including the next Medium-Term Management Plan period. The new plan’s reduction pace is JPY 120 bn per year, about twice the previous pace. As negotiations become more challenging over time, we aim to maximize reductions in the early stages. By March 2029, we expect to have reduced book value by 93% since SMBC's establishment, bringing it down to about 16% of net assets in market value.

Q4. What is SMBC Group’s capital policy?

A4: Our basic capital policy remains consistent: balancing capital allocation between growth investments and shareholder returns while securing financial soundness. Dividends continue to be the principal approach to shareholder returns, with a 40% dividend payout ratio and a progressive dividends policy. Additionally, we will conduct share buybacks flexibly. This time, we announced share buybacks of up to JPY 150 bn, with a total of JPY 250 bn for the full year, marking our largest ever. As we have consistently stated, "We will allocate excess capital between growth investments and shareholder returns flexibly in the short term, and in a balanced manner in the medium- to long-term." In years like this, where opportunities for inorganic investments are limited, we aim to more actively enhance shareholder returns.

As of the end of September 2024, our CET1 ratio was 10.3%, within our target range. I consider this an appropriate level for the present, but we will continue to evaluate its adequacy in light of the volatile business environment and potential reductions in unrealized gains from sales of equity holdings.