Q&A at the FY3/2025 Investors Meeting

Q1. What message would you like to convey to the market through your target for FY3/26 and share buybacks?

A1. As I have always explained, our basic approach remains unchanged: we are committed to pursuing growth while balancing capital allocation between growth investments and shareholder returns.

We finalized our target for FY3/26 on May 5, considering the current environment and factoring in a negative impact of JPY 100 billion on our bottom-line profit. This includes JPY 62.5 billion from changes in exchange rates, stock prices, and interest rates, as well as over JPY 50 billion before tax (JPY 37.5 billion after tax) in business-related impacts. For example, in April, our consolidated net business profit was about JPY 20 billion lower than expected, mainly in the Global Market Business Unit. The flow of overseas investment banking business is sluggish, and while ongoing domestic projects continue smoothly, many new projects are stalled due to a wait-and-see attitude of clients. In the wealth management business, fee income derived from Assets Under Management is decreasing due to a reduction in balance caused by declining stock prices. These factors have been incorporated into the forecasts as rationally as possible.

After announcing the this fiscal year's forecast, I have heard opinions suggesting that our targets appear conservative. I believe this is because various indicators have improved since the figures were finalized on May 5. Our domestic business remains particularly strong, and I am confident in achieving profit growth and meeting our targets.

Q2. How much upside do you see for the ROE target of 10% by FY3/29, given that competitors aim to achieve similar targets earlier?

A2. We aim for an ROE of 10% by FY3/29 and 11% by around 2030, striving to exceed these targets. Due to environmental changes and differences in macro assumption, direct comparisons with other companies are not straightforward. However, we will review our long-term perspective as needed while developing the next Medium-Term Management Plan.

Q3. Does the bottom-line profit target of JPY 2 trillion by around 2030 account for returns from the inorganic investments?

A3. While the JPY 2 trillion target is ambitious, I believe it is attainable. If domestic loans continue to grow at the current pace, the target could potentially be achieved through organic growth alone. However, it also includes future returns from the inorganic investments.

Q4. Do the 2030 targets take into account an increase in the CET1 ratio?

A4. In our next Medium-Term Management Plan, I believe it is necessary to reassess the appropriate level for the CET1 ratio. As unrealized gains on equity holdings decrease, we will carefully evaluate whether the current target of 10% ± 0.5% is sufficient or needs adjustment. At this point, there may be a possibility of raising our CET1 ratio target by approximately 0.5%, however, I do not see a need to raise it by as much as 1%. Moving forward, we will also consider an appropriate level through discussions with rating agencies.

Q5. What is the timeline for the decline in gains from the sales of equity holdings? What will drive profit going after this decline?

A5. While we aim to accelerate the reduction of equity holdings, progress during this fiscal year has been slow. Internally, I am emphasizing a target pace of JPY 120 billion in annual reductions. If conditions improve, we aim to exceed this target and complete the five-year reduction plan of JPY 600 billion ahead of schedule. Under the current plan, the remaining book value of equity holdings would be approximately JPY 400 billion. Given that some stocks may be challenging to sell, we anticipate a significant drop in gains from sales of equity holdings after FY3/29, the final year of the next Medium-Term Management Plan.

As for future growth drivers, we are focused on expanding domestic net interest income. This includes initiatives such as "Olive" and "Trunk," a comprehensive digital financial service for SMEs, which will benefit from rising interest rates and sticky deposits acquisition. In the large corporate business segment, we are aiming to catch up with other mega banks and ideally to surpass them, as our current scale remains smaller in comparison. Globally, while profits under our Multi-Franchise Strategy have not yet to meet expectations, I believe that we can expect notable growth beyond FY3/29 by improving internal management systems over the next four years. Additionally, securities businesses, such as investment banking and sales & trading business, have been a relative weakness. We intend to leverage our partnership with Jefferies to drive substantial growth in these areas. Strengthening these businesses will begin prior to the launch of the next Medium-Term Management Plan, starting from next fiscal year.

Q6. Why have both the balance and spread of domestic loan improved and remain strong?

A6. The balance of mortgage loans has remained flat as we avoid competing on interest rates. On the other hand, corporate loans have increased by over 7% overall, with loans to large corporates increasing by more than 10%. This growth reflects our strategic investments in management resources over the past few years, including increasing the number of relationship managers and prioritizing RWA allocation. We are also conducting a thorough review of internal rules and procedures to ensure they are not unnecessarily strict or hindering business development. Furthermore, synergies have emerged, such as SMBC providing loans for transactions acquired by SMBC Nikko. These factors have driven a strong growth in domestic loans.

Q7. The goal set by "Trunk" -300K accounts and JPY 3 trillion in deposits- is higher than that of competing online banks. What is the rationale behind this ambitious target, and how does Trunk differentiate itself from existing competitors?

A7. With Trunk, we aim to offer the speed of account opening and low fees that online banks are known for, while leveraging the capabilities of a mega bank to provide more complex payment solutions. This enables us to attract clients that competitors cannot serve. For example, large-scale salary transfers that online banks cannot handle are possible with Trunk. In addition to the client base of online banks, our target includes SMEs typically served by second-tier regional banks. Our market research shows that many clients, even those already holding accounts with online or regional banks, are willing to open an additional account with mega banks. Based on these factors, we set the achievable target of 300K accounts. The target for deposit per account reflects our focus on large-scale clients compared to online banks. As the service launches, we assess client demographics and refine our strategies accordingly.

Q8. There is a view that the Olive and PayPay collaboration might reduce market profitability. Are you prioritizing market share expansion over profits?

A8. We aim to balance profitability and market share without compromising either. By collaborating with PayPay, we believe we can help raise Japan's cashless payment ratio, which is currently below 50%. Expanding the market and sharing the resulting growth will allow both companies to achieve profitability and increase market share.

Q9. What is the outlook for monetary policy and the future plans for managing Japanese government bonds (JGBs)?

A9. Based on the Bank of Japan’s comments, it is assumed that their stance on normalizing monetary policy, including addressing significantly negative real interest rates, remains unchanged. While the timing of rate hikes might be delayed, it is expected that they will continue to gradually raise policy rates.

We currently hold a significant amount of sticky liquid deposits, which were often invested in JGBs in the past. While this operation was suspended during the negative interest rate period, rising interest rates have led to internal discussions about resuming traditional investment strategies. Now is becoming favorable time to rebuild positions in JGBs.

Q10. Why has the pace of RWA deployment slowed despite the accelerated reduction in RWA?

A10. Emphasizing ROE-focused management, we prioritize not only reducing low-profit assets but also ensuring profitability is strictly controlled during the initial stages of transactions. Overseas, we are more selective in allocating RWA than in the past. Meanwhile, domestically, we take manageable risks and actively deploy RWA to meet funding demands.

Q11. What are the plans for reducing low-profit overseas assets in FY3/26?

A11. We sold the U.S. freight car leasing business in FY3/24, and divested low-profit project finance in EMEA in the second half of FY3/25, recording certain losses. While there are no significant low-profit assets remaining, in FY3/26, we will review corporate loans that have been in a low-profit state for approximately 3-5 years. For project finance, we will assess the profitability on case-by-case basis not only in EMEA but also in the U.S. and Asia. The sales of these assets would result in losses of approximately JPY 50 billion, depending on the circumstance.

Q12. How does the U.S. tariffs impact businesses in Asia?

A12. The Philippines has a relatively low reciprocal tariff rate with the U.S., and India does not face significant issues either. However, depending on future negotiations, Vietnam faces a very high reciprocal tariff rate of 46%, and there is potential for an impact in Indonesia as well, which we have partially factored into our FY3/26 plan.

The main reason of lowering the target for Multi-Franchise Strategy is incorporating the downside risks of certain underperforming businesses until FY3/25. FE Credit has resolved its non-performing loan issues and has finally returned to profitability, but it will take a few years to reach pre-COVID profit levels. In India, stricter regulations have led to an increase in non-performing loans across non-banking sectors, and this impact is expected to persist for SMICC.

Q13. A credit rating agency have commented on the capital level after the announcement of the investment in YES BANK. Could this limit future growth investments and shareholder returns?

A13. Investments were decided upon after considering that investments exceeding a 10% stake in financial institutions result in the full capital deduction. The target CET1 ratio of 10% is expected to be met in September 2025 and March 2026. We are in regular communication with credit rating agencies and, at this point, do not foresee any negative impact on our credit ratings.

Q14. Regarding IT investment, why has the corporate infrastructure investments increased? What is the future investment plan and methods for assessing investment effectiveness?

A14. Under the previous Medium-Term Management Plan, IT investment budget was amounted to JPY 535 billion over three years. In the current plan, the budget has been revised upward from JPY 650 billion to JPY 800 billion, a 50% increase compared to the previous plan. The primary reason for the increase is the higher-than-expected demand for digital investment to develop businesses like Olive and Trunk. Additionally, the rise of AI has necessitated significant investment, with JPY 50 billion allocated specifically for AI initiatives. Another major driver is the substantial investment in cybersecurity, as cyberattacks have grown increasingly complex. Inflation has also contributed to the additional spending. Recognizing that restricting budgets could negatively impact our competitiveness, we decided to invest more for the future.

To ensure investment effectiveness, returns over five-year period are projected for each initiative, taking into account associated costs. We set hurdle rates based on project types, such as revenue enhancement or cost reduction to decide whether to proceed with projects and continue monitoring the effectiveness after investments.

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