Conference Call for 1Q FY3/26

Transcript

- In the first quarter, both consolidated net business profit and bottom-line profit achieved a progress rate of 29%. We initially estimated a negative impact of JPY 100 bn from the U.S. tariffs, but this has not yet materialized. While we continue to monitor FX rates and stock trends, if the current environment persists, such negative impacts may be less than initially expected.
- Consolidated net business profit increased across three Business Units.
  Retail Business Unit: the number of Olive accounts exceeded six million, with the retail deposit balance steadily increasing, boosting yen deposit income.
  Wholesale Business Unit: loan balances increased by 18% for large corporations and 4% for mid-sized corporations and SMEs, expanding income on loans and deposits. Amid strong funding demand driven by robust corporate actions, loan spread slightly declined mainly due to M&A bridge loans, which contributed to strong fee income by capturing business opportunities.
  Global Business Unit: income on loans and deposits increased with a focus on ROE, also expanding fee income. By focusing on profitable projects, loan balances increased, particularly in the Americas, where demand is strong.
  Global Markets Unit: banking profit was steadily accumulated by nimble operations, but trading business faced challenges under the market turmoil in April, resulting in a profit decline.
- G&A expenses slightly increased due to inflation and revenue-linked costs. However, the overhead ratio improved by 2.4% YoY to 55.1% with gross profit growth.
- Credit costs increased to JPY 75.6 bn, due to the absence of reversal, but controlled in line with the full year forecast of JPY 300 bn. No signs of asset quality deterioration are observed in specific sectors or products.
- Gains on stocks was JPY 41.1 bn, which declined by JPY41.3 bn YoY. This results from decline of gains on sales of equity holdings and loss from the partial sale of the Bank of East Asia equity. This sale consequently removed the Bank of East Asia from our equity method affiliates.
- Reduction of equity holdings increased from JPY 17 bn to JPY 24 bn in book value, while gains decreased due to differences in unrealized gain for each equity. Typically, the first quarter sees slow progress in negotiations with clients, and this year was further impacted by market uncertainties. However, with the recovery of stock market, we continue to aim for reductions exceeding the annual target of JPY 120 bn under the plan.
- The profit contribution in FY 3/26 from previous policy rate hikes is initially estimated as JPY 90 bn, factoring a JPY 20 bn negative impact from lower long-term rates following the U.S. tariffs announcement. However, if the current 10-year JGB stays around the high 1.5% range, we expect a profit contribution of JPY 110 bn with minimal negative impact.
- We plan to gradually build JGB positions depending on future rate hike speed and interest rate level, utilizing held-to-maturity positions as well.
- Overall, the first quarter showed steady progress. While uncertainties like tariff impacts and the political situation remain, sentiment has improved since April. We aim to capture this trend and target a higher bottom-line profit level.
- Our stock price fell significantly after the tariffs announcement but has recently recovered, with Price-to Book Ratio (PBR) reaching one again following the U.S.-Japan tariff agreement. We believe it is essential to maintain a stable PBR above one even in challenging environments. We will continue to enhance ROE and PER, striving to further increase corporate value without being satisfied with the current situation.

Q&A

Q1. How do you view the potential for upward revision of the FY3/26 target?

A1. It seems likely that the initially anticipated negative impact of JPY 100 bn from the U.S. tariffs will not materialize. Our three customer-facing Business Units—Retail, Wholesale, and Global—are performing better than expected, and we have begun building positions in yen-dominated bonds, indicating potential upside in our targets. However, we must carefully assess the impact on our clients. Although FX rates and stock prices have returned to pre-tariff announcement levels, we are closely monitoring potential yen appreciation due to client performance and U.S.-Japan interest rate differentials. We will evaluate the potential upside and make decisions by the first-half results.

Q2. How do you view the capital policy going forward, considering the business progress and current investments?

A2: Our basic capital policy remains unchanged. I am confident that we can maintain a CET1 ratio of around 10% even after investing in YES BANK in India. We continuously review the profitability of financial institution investments, as demonstrated by the partial sale of the Bank of East Asia equity which removed it from equity method affiliates. We may generate surplus capital for shareholders return if we can maintain current profit level, but we will assess our full year target by the first-half results, observing tariff impacts to our clients.

Q3. Are increases from equity in gains of affiliates and lowered income taxes included in the forecast?

A3: Although there were some timing differences, the figures are generally as expected.

Q4. What is the background of strong loan growth in domestic large corporations and trends onward?

A4: Loan balances to large corporations increased by 18% YoY, driven by strong demand for bridge loans in M&A financing. A few banks tend to issue large bridge loans in initial stages, but as M&A process progresses, clients are expected to shift them to long-term loans or bonds, normalizing balances. We anticipate continued growth momentum as the pipeline remains strong. Extending these short-term bridge loans to long-term is expected to improve loan spreads.

Q5. Regarding Global Markets Business Unit, is the decrease in SMBC Nikko’s gross profit due to temporary factors? How is the progress of SMBC’s banking operations?

A5: SMBC Nikko faced trading losses due to struggle in managing positions during a significant steepening of yen interest rates in April. However, the situation has since improved. SMBC's banking operations are progressing as usual.

Q6. How do you plan to operate yen-dominated bonds balance?

A6: While yen-dominated bonds balances have decreased, held-to-maturity balances have slightly increased and duration has lengthened as we started purchasing longer-term bonds. The 10-year JGB yield is currently at a favorable level of around 1.5% to 1.6%, but we are cautious about rapidly increasing positions considering potential rate hikes. We will build positions while monitoring interest rate trends and balancing held-to-maturity and available-for-sale.

Q7. What are the credit costs in major group companies?

A7: The increase in credit costs is mainly due to the growth of retail businesses in both domestic and overseas. There are no concerns about credit to individual corporate names. Specifically, overseas growth is due to the expansion of SMICC in India and costs associated with microfinance in rural areas.