Major Q&A at the 1H, FY3/2020 Investors Meeting

Q1. What will be the focus in the next Medium-Term Management Plan?

A1. Three key words of our strategy in the medium-to long-term are "IT-oriented", "platformer", and "solution provider." We aim to provide not just simple financial products but services to solve clients' problems.
We are currently under discussion of the next Medium-Term Management Plan. I believe it is most important that all of our 100 thousand employees could share the mindset of changing ourselves. The idea is to reform our business model on a group basis, further reduce costs, and pursue top-line growth at the same time. Of course, I understand it is not easy to come up with strategies which will contribute to top-line growth as the outlook becomes more unclear. However, I would like to plant business seeds that will lead to J-curve growth in the future.

Q2 How will you control costs in the next Medium-Term Management Plan?

A2 We will further enhance cost reduction initiatives in the next Medium-Term Management Plan in order to reduce OHR to around 60% at the earliest opportunity. For example, we will implement initiatives which were successful at SMBC (i.e. RPA) to other group companies, downsize headquarter staff, and integrate overlapping operations among group companies.
On the other hand, expenses will increase in the overseas business, mainly to enhance corporate governance.

Q3. How will you expand your business in Indonesia?

A3. BTPN and SMBC Indonesia merged in February 2019, to establish a full-line commercial bank in Indonesia. BTPN has expertise in the mass market retail business including pension-related banking, while SMBC Indonesia focuses on corporate banking to the top-tier companies. What the new-born BTPN lacks is businesses with SMEs and middle-income retail customers. Alliances and/or acquisitions which fill the missing parts can be considered.
On the other hand, BTPN provides top-class mobile/digital banking services in Indonesia. Expanding these services to other countries in South East Asia is something else we are considering.

Q4. What is your overseas strategy in the asset management business?

A4. We have reached an agreement with TT International, a UK based asset management company to acquire the company and plan to complete the acquisition by the end of March 2020, subject to the approval of relevant authorities.
TT International is expected to grow in the medium- to long-term because it has strength in Asia and emerging market equities and also has a wide customer base of pension investors in Europe, North America, and Asia. While its AUM is currently not that big (USD8.4bn), we also believe there is high affinity and synergy with Sumitomo Mitsui DS Asset Management.
We will continue to look for M&A opportunities in the asset management business. The most important factor for us is whether we can control the management of the acquired company, as the business largely depends on people and know-how. Of course, we will carefully consider the return on investments, as valuation of asset management companies is generally high.

Q5. Where will you allocate the surplus capital generated this fiscal year?

A5. Our basic capital policy is to achieve a healthy balance among securing financial soundness, enhancing shareholder returns, and investing for growth. In terms of securing financial soundness, our CET1 ratio reached our target of 10% at the end of FY3/19, one year ahead of schedule. As a result, our capital policy has shifted to a new stage where we can allocate retained earnings we generate going forward to enhancing shareholder returns and investing for growth.
Profit attributable to owners of parent is expected to be ¥700 billion in FY3/19, and we are allocating ¥250 billion to dividends and ¥100 billion to share buybacks. Another ¥100 billion is being allocated to inorganic growth: the conversion of Sumitomo Mitsui Card Company to a wholly owned subsidiary and the reorganization and the acquisition in the asset management business. About ¥150 billion is going to be allocated to organic growth mainly to increase overseas asset. The remaining capital of about ¥100 billion is expected to be allocated to other opportunities for investing for growth. However, it does not necessarily mean that all of the remaining capital will be used this fiscal year.

Q6. Do you think 10% of CET1 ratio is adequate? How will you allocate RWA going forward?

A6. In the Medium-Term Management Plan, we set our target of CET1 ratio at 10% because this will allow us to exceed our minimum requirement of 8% even in the case of a severe stress scenario. I believe this is an adequate level to secure financial soundness.
We will continue to control and selectively allocate RWA. In other words, we will prioritize improvement of capital/asset efficiency when allocating our assets and increase assets mainly in overseas.

Q7. How will you control credit costs?

A7. There are currently no specific regions, industries, or asset classes in our global portfolio that we expect the credit quality will significantly deteriorate. We will respond carefully to any sign of changes to the credit cycle.
For example, there are about 30 indicators to monitor the credit cycle in the U.S. We are reviewing our credit portfolio and deciding how to respond swiftly to changes in the business environment based on the monitored results.

Q8. What is your view towards charging account maintenance fees?

A8. It takes certain costs to maintain deposit accounts and these costs have been increasing to prevent money laundering and terrorist financing activities.
Our basic approach is to charge reasonable fees in return for value added services we provide. However, we have not decided anything, including whether or not to introduce account maintenance fees.

Q9. What are the most important points in collaborating with companies in other industries?

A9. First, it is necessary to build a win-win relationship. It is also important to share a common goal; to provide new services with high added value, high convenience, and low costs. Also, I would like to treasure partners who have similarity in strategies and can collaborate in a variety of fields.