

Major Q&A at the 1H FY3/21 Investors Meeting

Q1. How do you evaluate the 1H results in Retail, Wholesale, and Global Business units?

A1. Businesses where we have strengths were significantly impacted by COVID-19 such as businesses with mid-sized corporations and SMEs, consumer finance, aircraft leasing, and LBOs. Overseas securities business, where we are now trying to strengthen under the current Medium-Term Management Plan, performed well but lagged behind competitors. However, we cannot end up with these excuses. We are reviewing whether our marketing efforts and tactics were sufficient. I believe that the 1H results clarify that the direction of our Medium-Term Management Plan is correct. We will expedite the execution of the plan and try to get our activities back on track immediately.

Q2. What is the outlook of the credit cost?

A2. The credit cost in 1H FY3/21 was JPY 200 bn which was lower than our initial forecast of JPY 300 bn thanks to the economic stimulus measures introduced by governments worldwide and liquidity support by financial institutions. It is difficult to accurately estimate the timing and the amount of credit cost for and after 2H FY3/21 as it depends on the outcome of COVID-19 and how much further economic stimulus measures can be expected. There is currently no indication that credit cost will increase significantly in 2H. However, we did not change the full-year forecast of JPY 450 bn because of risk factors such as the increase of delinquencies and deterioration of credit as well as the resurgence of COVID-19.

Q3. What is the outlook of the performance and the risk of additional impairment losses at SMBC Aviation Capital (SMBCAC)?

A3. The impact of COVID-19 on SMBCAC has become more severe than our initial expectation because of the sluggish airline sector. SMBCAC has yet to receive any aircraft returns at present. However, impairment losses of aircrafts are increasing through the requests for deferral or reduction of lease payments from lessees. In August, we estimated the potential maximum impact on overall performance of impairment loss and reduced lease rentals to be USD 600 mn for the next three years, but we have since increased our estimate of the potential impact to a maximum of USD 900 mn. We expect the impact to be slightly prolonged, but the financial impact will stay at a manageable level for SMFG.

Q4. What is the progress and outlook of the credit card business?

A4. E-commerce related credit card companies increased their sales handling volume due to the growth in online shopping. On the other hand, SMCC was strongly affected by sluggish consumption resulting from COVID-19 through the decrease in high-value payments at department stores and travel as well as the decrease in payments of UnionPay due to the disappearance of inbound travel demand. However, corporate business such as the next-generation payment platform “stera” and the data analytics service “Custella” performed well. We will continue to execute our mid-to long-term initiatives with SMCC as a core entity for our cashless payment strategy.

Q5. How do you intend to use capital going forward as the RWA increase is lower than your initial forecast? Is there a possibility for share buybacks?

A5. Though we have been actively providing financial support to domestic and overseas customers affected by COVID-19, some clients mainly in overseas started making repayments. As a result, CET1 ratio as of Sep. 20 was 9.7% against our target of c.9.5% under COVID-19. Going forward, we need to prepare for the resurgence of COVID-19 and would like to allocate some capital in businesses including through in-organic measures that contribute to increase our top-line revenues. From these backgrounds and the situation in the U.S. and Europe, we decided not to announce share buy back at this time. However, we would like to conduct flexible share buybacks in a timely manner as our stock price is very low right now.

Q6. What is the current status of new businesses? Are there any profit contributions?

A6. Although it has not yet become a major source of income, there are some promising businesses as the trend of digital and cashless advances in response to COVID-19. For example, “Biz-Create”, which provides a business matching service to search for business partners on the Internet, has more than 6,000 corporate users and 800 business negotiations every month. “SMBC CLOUDSIGN”, which provides a digital contract platform, increased the number of users in October by 70 times compared to February and became profitable in September on a single month basis. In addition, “brees corporation”, which provides an agency payment service, is expected to make profit in FY3/22 because it succeeded in contracting with three major convenience stores and a major electricity company. Although the nine new companies established since I became Group CEO are still in red in total, some are becoming profitable.

Q7. Do you have any confidence on the efforts to change the corporate culture?

A7. Changing corporate culture is essential for us to transform. Since I was appointed Group CEO, I have urged employees to “Break the Mold” and proactively pursue new challenges without being bound by precedent or fixed ideas. Some successful cases are gradually coming out. One example is “Plari Town”, a platform to support the digitalization of SMEs. It was planned and founded by an employee, which I had no direct involvement in. The other example is an internal SNS system, which was launched to encourage open communication that goes beyond organizations, ages, and positions. We can see many employees joining in from executives to new employees. As the organization has strong resilience against “change”, I will continue these efforts.

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