

Major Q&A at the 1H FY3/22 Investors Meeting

Q1. What is the background to the recently announced shareholder returns?

A1. We announced the increase of our DPS target by JPY 10 (YoY +JPY 20) and the resolution of share buybacks up to JPY 100 bn.

With regard to dividends, we follow a progressive dividend policy and aim to achieve dividend payout ratio of 40% in FY3/23, the final year of the Medium-Term Management Plan, with bottom-line profit of over JPY 700 bn on a core earnings basis. I gained certain confidence in achieving the bottom-line profit target for FY3/23 as the negative impact of COVID-19 is declining and our core earning is steadily recovering. Therefore, we decided to raise our DPS target by JPY 10 to make a stable path for this goal along with the upward revision of the full-year target of bottom-line profit.

As to share buybacks, we have postponed the decision for the past year and a half to prioritize funding support for customers suffering from COVID-19. However, the external environment has improved, as seen in the lifting of restrictions on shareholder returns at European and U.S. banks. We resolved to execute JPY 100 bn of share buybacks to strengthen shareholder returns given the fact that we maintain a sufficient level of capital and that our stock price remains at a low level. Although the repurchase period is scheduled for one year across two fiscal years, we will flexibly consider future share buybacks regardless of the progress of JPY 100 bn repurchase.

Q2. What is the future strategy for Asia based on the recent investments?

A2. Since 2012, we have been working to create "a second and third SMBC Group" in Asia under the "multi-franchise strategy." In 1H FY3/22, we decided to invest in the target countries: India, Vietnam, and the Philippines. We will pursue J-curve growth of profit going forward by creating synergies with local SMBC branches and expanding business areas, in addition to the growth of the investees' own businesses. We will also engage in post-merger integration to accelerate the growth.

Q3. What is the capital allocation policy going forward?

A3. We do not intend to change the target CET1 ratio of c. 10% (currently lowered by 0.5%) unless risk scenario changes significantly. Excess capital will be allocated to investments for growth and shareholder returns in a balanced manner.

The allocation of capital to investment for growth in FY3/22 was JPY 430 bn since we had multiple acquisitions and investments. As investment for growth depend on time constraints, it sometimes concentrates in a short term like 1H FY3/22, or otherwise there are no opportunity at all. Therefore, we state "flexible" share buybacks, while striking a right balance between shareholder returns and investment for growth in the medium- to long-term. I am fully aware that our share price is at extremely low level and will continue to consider flexible share buyback.

Q4. How do you see the 1H FY3/22 results and what is the background to the revision of full-year forecasts?

A4. Our consolidated net business profit in 1H FY3/22 increased by JPY 30 bn compared to 1H FY3/21 when we made a slow start due to COVID-19. While the degree of recovery varies between each business, I believe that our overall business has recovered to pre-COVID level. On the other hand, I could say that it has only returned to a normal level. We aim to pull up the level by quickly and steadily implementing the measures of the Medium-Term Management Plan.

The full-year forecast of consolidated net business profit remains unchanged since we expect decrease of profit in 2H in the Global Markets Business Unit, which exceeded the initial expectations mainly due to strong performance from sales of stocks. We lowered our credit cost forecast by JPY 100 bn to JPY 200 bn. JPY 170 bn is expected in 2H as we incorporate downgrade risks of some large borrowers on top of pre-COVID level reserve build of JPY 100 bn. In addition, we do not expect any reversal of provisions as in 1H. As a result, the full-year forecast for the bottom-line profit was raised by JPY 70 bn to JPY 670 bn.

Q5. How will you achieve JPY 30 tn of sustainable finance by 2030?

A5. Capital investments related to decarbonization should increase further in the future. Therefore, I am quite confident that we could fully achieve the JPY 30 tn target of sustainable finance. Result of 1H for instance was JPY 1.9 tn, exceeding the normalized speed. However, this is just one of the KPIs. The more important thing is to provide diverse solutions through sustainable finance on a group basis to solve environmental and climate change issues.

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