Major Q&A at SMBC Group IR Day 2020

1. Retail Business Unit
Naoki Tamura, Senior Managing Executive Officer

Q1. How are you trying to enhance the wealth management business for HNWI?

A1. We established a new department in April 2020 to strengthen our consulting capability for corporate owners by integrating resources of SMBC, SMBC Nikko, and SMBC Trust. We have been building new relationship with corporate owners by working together with wholesale marketing officers, while it was difficult to do so under the state of emergency during April and May.
Our challenge is to further improve our marketing scheme, which provides products and services appealing to HNWI.

Q2. What is the outlook of credit card sales handled and the loan balance of consumer finance?

A2. While credit card sales handled decreased YOY in April and May, the trend changed upward in July. We were able to perform better than the market, because increase of payments in e-commerce has been offsetting decrease in those in brick-and-mortar stores. It may depend on whether the inbound market comes back, but we well work hard to achieve the target of the Medium-Term Management Plan.
The loan balance of consumer finance has been decreasing, but its pace is getting slower. YOY change in new loans of consumer finance was negative in May and June, while gradually improving after that. The repayment amount increased in June and July due to the COVID-19 benefits provided to individuals from the government, but started decreasing since August. I believe that customers now have capacity to borrow money because of the repayments they have been making. Therefore, we believe that the loan balance would recover to the previous level, as consumers' activities come back. We will expand our market share by well-timed advertising and promoting digitalization.

Q3. How is the situation of credit cost in credit card business and consumer finance?

A3. NPL ratio has not increased so far and credit cost is rather decreasing, as loan balance decreases. The number of requests for extension on repayment was approximately one thousand per week in April, but now it is around 20% of the peak time. Our NPL ratio would increase in case that Japanese unemployment rate rises, but the impact on the credit cost is expected to be limited.

Q4. Do you feel the need to modify strategy with COVID-19?

A4. What has happened under COVID-19 such as expanding needs for digital / remote services and cashless payment is a strong tail wind to our strategies of the Medium-Term Management Plan. We will accelerate our major policies with certain fine-tuning. Our current plan is to maintain the number of branches in order to leverage our strength in face-to-face consulting. However, we will flexibly revise our strategy if customers' needs greatly change in the coming years. Additionally, we will invest in digitalization as well.

2. Wholesale Business Unit
Kimio Matsuura, Senior Managing Executive Officer

Q1. What is the outlook of non-interest income, while the result of 1Q was lower than the same period of the previous year and the results of our competitors?

A1. The non-interest income of 1Q decreased YOY due to the stagnation in corporate activities caused by COVID-19 and the absence of large deals we had in the previous year.

On the other hand, there are two reasons why we lagged behind our competitors. One is the weaker performance in areas including IB business through bank-and-securities collaboration, where we are trying to build up during this Medium-Term Management Plan. The other reason is that our competitive businesses including the business with mid-sized corporations were significantly damaged by COVID-19.

However, the net business profit in July increased YOY and there is an increase in the number of ongoing transactions such as business restructuring and capital funds. It will not be easy, but I am getting confident that we will be able to recover the loss of 1Q.

Q2. Did the decline of loan spread for domestic corporates bottom out during the previous Medium-Term Management Plan?

A2. The loan spread of the Wholesale business unit bottomed out in March 2020 because the loan spread for large corporations bottomed out due to an increase of higher spread loans related to business restructuring and the decline of the loan spread for mid-sized corporations/SMEs has been slowing down. This was one of the achievements of the previous Medium-Term Management Plan. We will keep this trend to increase the total income of the Wholesale business unit.

The loan balance increased in 1Q mainly because of COVID-19 related loans for large corporations and high rated mid-sized corporations. The downward pressure of spread is expected to be alleviated in line with repayment of those loans because they are mostly short-term. We will gradually raise the loan spread by increasing higher spread loans in growing areas.

Q3. What is the outlook of domestic LBO finance and how will you deal with credit risks?

A3. The balance of domestic LBO finance has increased over the last few years in response to our client’s needs. We will continue to allocate RWA to this business since there are still high demands for industry reorganization in Japan. Of course, we consider the proper balance of profits and credit risks when allocating RWA.

3. **Global Business Unit**
Masahiko Oshima, Deputy President and Executive Officer.

Q1. What is your competitive advantage of the CIB business?

A1. Most of the U.S. and European banks are now narrowing their regional coverage to focus on their mother markets. On the other hand, we operate a commercial banking business on a global basis and I think right now is a good opportunity for us to expand the CIB business by leveraging this strength to support clients with more beneficial conditions.

I am confident that we have strength in products compared to other mega banks, i.e. project finance, subscription finance, trade finance, and the aircraft business. We also have an advantage in combining our strengths in both Japanese and non-Japanese businesses.

Q2. What is the mid-to long-term strategy of the aircraft leasing business?

A2. The importance of the aircraft leasing business for us has not changed and I believe this business will continue to grow in the mid-to long-term. The market environment is severe as IATA reported the recovery in traffic has been slower than had been expected. However, I believe that SMBC will be able to manage downside risks because a) their aircraft portfolio consists of young and mostly narrow body type aircrafts and b) they have strong credit analysis skills. I believe there are still growth opportunities even under such a severe environment.

Q3. What is your strategy in the Asian business going forward?

A3. We continue to seek for growth opportunities in Indonesia. As the number of new cases of COVID-19 is still increasing, there are negative impacts on businesses with individuals and local companies. Therefore, there might be unexpected events going forward.

We will also aim to create another franchise going forward in the Philippines or India, as well as Vietnam, where we hold a 15% stake in Eximbank.

4. **Global Markets Business Unit**
Masamichi Koike, Senior Managing Executive Officer

Q1. How are you managing the investment of foreign bonds under the current interest rate environment?

A1 It is not easy to earn profit from foreign bonds under the continuing negative or zero interest rate environment globally. However, we have been strengthening our system for ten years in order to earn profit in any environment. We are generating profit from the whole portfolio, not only from foreign bonds but also from equities.

Q2. How is the progress of overseas sales & trading profit toward the target of Medium-Term Management Plan?

A2. Overseas sales & trading profit of 1Q FY3/21 was higher than the target because of the record high bond issuance in the U.S. market. However, I am not satisfied with the result because our competitors performed better. As enhancing overseas sales and trading business is one of our challenges in the Medium-Term Management Plan, we will further strengthen our operating scheme and capabilities.

Q3. How do you evaluate the result of 1Q FY3/21 in Global markets business unit?

A3. In 1Q FY3/21, we did not only achieve the budget, but we also earned sufficient profit considering the market environment. I view the budget as the minimum requirement for us and I evaluate our result by comparing with the market. We, as a team, will always pursue higher profits by continuously improving ourselves.

5. **CFO session**
Toru Nakashima, Senior Managing Executive Officer

Q1. What is the outlook of 1H and full-year financial results?

A1 The result of 1H is expected to exceed our target unless there is any negative surprise in September. There are two main factors. One is that the net business profit exceeded 50% of the 1H target in 1Q. It is performing well even after July as the wealth management business has been recovering and the number of ongoing transactions for large corporations has been increasing. The other factor is that credit cost of 1H is expected to be below our 1H forecast of JPY 300 bn. The credit cost of 1Q was JPY 114.8bn and there was no significant increase during July and August.
Though it is hard to predict whether there will be another big-wave of COVID-19 or the second state of emergency in Japan, I don't think at this moment that we need to revise our full-year targets.

Q2. Do you have any concern about achieving the financial target of the Medium-Term Management Plan?

A2. I have no specific concern at this point, rather I feel that COVID-19 brought us an opportunity to accelerate our initiatives of branch reorganization and digital shift in the wealth management business.
We need more time to assess the final impact of COVID-19. However, our base case scenario is that the negative impact was worst in 1Q. It is expected to be alleviated gradually toward FY3/22, the final year of the Medium-Term Management Plan.

Q3. Has COVID-19 changed your shareholder return policy?

A3. Our shareholder return policy has not changed: dividend is our principal approach and we will progressively increase dividends to achieve a dividend payout ratio of 40% by the end of the Medium-Term Management Plan. We will flexibly conduct share buybacks taking into consideration the level of capital, earnings trends, opportunities to invest for growth, share price, and other factors. In order to provide financial support to our clients suffering from COVID-19, we will manage our CET1 ratio (*) in a range of 9.5%±0.5% for the time being, lowered by 0.5% from the financial target of c.10%.
In principal, we will not reduce dividends. I am aware that the shareholder returns of the U.S. and European banks are currently restricted, but Japanese banks generally have more capital than European banks and our total payout ratio is not as high as the U.S. banks.
We did not make any decision for share buybacks in May because of the uncertainty about the impact of COVID-19, and this situation has not changed yet. While the CET1 ratio of 9.4% at the end of June 2020 is expected to slightly fall toward the end of the fiscal year, I believe we will be able to manage the ratio within the target range of 9.5%±0.5%.
I personally would like to conduct share buybacks if possible considering our low PBR, but we should consider carefully taking into account the possibility of the second/third wave of COVID-19.
(*) Post-Basel III excluding net unrealized gains on other securities.