

Major Q&A at SMBC Group IR Day 2021

1. Retail Business Unit

Takashi Yamashita, Senior Managing Executive Officer

Q1. How do you achieve net business profit target of the Medium-Term Management Plan?

A1. We aim to increase net business profit JPY 35 billion by FY3/23 in three years. I expect the growth in wealth management business by increasing AUM. Payment and cashless businesses had negative impact of COVID-19, but they are expected to recover and catch up the original plan in FY3/22. Loan balance of card loan bottomed out recently, but decrease of JPY 100 billion in FY3/21 will negatively impact on interest income during the term of current Medium-Term Management Plan. Therefore, it is essential to capture upside potential in each business and complete branch reorganization in order to achieve the target of net business profit. We will adapt to the market trend and enhance our cost reduction efforts including branch reorganization.

Q2. In which area do you plan to allocate resource to expand retail business?

A2. I view wealth management business as growing market since there is a potential to shift individual finance asset from saving to asset building. We will capture growth of payment and cashless businesses market and will expand consumer finance business in the medium term, which had negative impact of COVID-19 last year. On the other hand, we will pursue efficiency on a group basis through branch reorganization by reviewing operational process and reducing headcount. We will utilize the result of such efficiency to investment in digitalization.

Q3. How do you expect the direction of branch reorganization in the medium term?

A3. We have proceeded the branch reorganization from previous Medium-Term Management Plan, and currently we are pursuing more efficiency through reviewing process and transforming to smart branch while increasing connection with clients to strength our consultation. While we close or merge branches in the area where population and visitors are decreasing, we open new branches in the area with active customers. As digitalization proceeding faster than our expectation lead the decrease of visitors, we will modify the branch network flexibly to match with market trend.

Q4. What is the intention of establishing Wealth Management Division and Payment and Consumer Finance Division?

A4. We have built up a business model that SMBC with large customer base introduce clients to SMBC Nikko which has strength in providing products and know-how for complicated investment needs and increase AUM. By establishing Wealth Management Division, we include SMBC Trust to the function and strengthen our planning and marketing in a group basis. For Payment and Consumer Finance Division, we will enhance our capability by capturing overall credit card and consumer finance business and maximize our group basis transaction led by SMCC.

2. Wholesale Business Unit

Masahiko Oshima, Deputy President and Executive Officers

Muneo Kanamaru, Senior Managing Executive Officer

Q1. What is the reason of good performance that you aim to achieve the target of Medium-Term Management Plan ahead of schedule?

A1. Our good performance is due to the increase of loan income which is led by the increase of loan balance related to COVID-19 in FY3/21 and our disciplined management of loan spread. Currently, the loan balance is slightly decreasing by repayment of large bridge finance and COVID-19 related loans. However, by focusing on LBO finance and other specialized finance such as real estate related, we will maintain our loan balance and loan margin. In addition, these CIB transactions leads to the increase of non-interest income.

Q2. What is the outlook of domestic LBO finance?

A2. While loan spreads remain at low level, capital inflow to PE funds leads the many investments and we are trying to capture those momentum. Our current loan balance of LBO finance is approximately JPY 1.3 trillion, and we expect the increase going forward. On the other hand, LBO finance has high risks and we will be selective to execute the deals. We have established credit functions and committee focusing on LBO finance this year and will stick to high quality by assessing risks and returns precisely.

Q3. What is your challenge and initiatives to strengthen solution providing skills?

A3. We are on the way to strengthen our capability. We established specialized team and concentrate all transactions such as business succession. Consolidating functions of SMBC, SMBC Trust and SMBC Nikko is essential and we provide solutions to clients together and work as value chain in each business line. In collaboration of SMBC and SMBC Trust, real estate business is also important. We have established CRE Solution Group in SMBC and seek the clients' needs while establishing real estate brokerage focused team in SMBC Trust to provide solutions. We will create such value chain and try to capture the business opportunity at SMBC Trust.

Q4. What is the outlook of sustainability finance and how is the progress of engagement with clients?

A4. Many Japanese companies recognize the sustainability as an urgent issue to solve, but the situation in Japan is behind that of the U.S and Europe where the action is advanced. While clients are forced to solve the issues by 2030 or 2050 under difficult situation, we need to show our value by considering the solution together with clients. I believe we can have big business opportunities by providing solutions based on examples in the advanced countries. We have listed up the companies with high interests in sustainability and started communication with over 900 clients. We are proceeding our engagement for each stage, depending on clients' situation.

3. Global Business Unit

Ryuji Nishisaki, Senior Managing Executive Officer

Akihiro Fukutome, Senior Managing Executive Officer

Q1. How do you expect the recovery of overseas loans? What is the outlook of achieving the target of FY3/22?

A1. The loan growth in 1Q is not very strong due to the repayment of COVID-19 related loans, although there are differences among the regions. However, we can expect the recovery in loan demand going forward in the U.S. and Europe where the vaccination is progressing. We have certain offers from clients where we have strengths such as project finance and leveraged finance. We will carefully monitor risks as well as considering target profits and returns, while the uncertainty still continues.

Q2. How do you plan to strengthen CIB business?

A2. I believe there is a big potential if we leverage our strength in commercial banking products and our initiative to enhance securities business. We will expand our IG business to Sub-IG clients and enhance sales and trading business. We will establish business platform in both offensive and defensive way and catch up to our peers considering of taking new risks, while we update system and allocate headcount.

Q3. How is the progress of Multi-Franchise strategy in Asia? What do you think is the missing function?

A3. In Indonesia, where we have full-banking platform including banking, auto-finance, securities and leasing, we will enhance synergies on a group basis. In Vietnam, we decided to invest FE Credit, a leading consumer finance company, and will work to create synergies by mutual support. In India, gross profit of wholesale business increased in FY3/21 and we expect high potential in retail business as well, even though the impact of COVID-19 is strong. Therefore, we will consider the opportunity to enter the market. We will pursue the opportunity to expand retail business in the Philippines as well.

Q4. What is the expectation for SMBCAC's business performance towards the recovery and what would the implication be from the announced merger of GECAS/AerCap?

A4. SMBCAC remained profitable in FY3/21. We expect that we can capitalize on the current market condition where the domestic market recovers first, with our robust portfolio with primarily consisting of narrowbody, particularly young and fuel-efficient new type aircraft. It is often said that the announcement of the merger of GECAS/AerCap may accelerate the reorganization/consolidation in the industry. We will look at M&A opportunities whilst monitoring the market conditions and competitors' trend, but any transaction would need fit with our strategy and be at acceptable terms.

4. Global Markets Business Unit

Masamichi Koike, Senior Managing Executive Officer

Q1. What is your market view for FY3/22 and how do you expect the impact to business unit strategy?

A1. The most important point to forecast the market trends of FY3/21 is when and how the Fed will normalize its accommodative monetary policy. While some says that the Fed has changed its stance in the recent FOMC, I believe the core members including Chair Powell have not basically changed their views on the path of normalization, that is, they do not intend to raise rates any time soon although they are going to start tapering in the near future. Therefore, with an outlook that the global economy will continue to recover steadily going forward, risky assets have potential to increase unless the Fed stops substantial liquidity provision.

Some view the current situation as a bubble. When you see the past, however, it emerges in an excess liquidity environment with a very strong economy. In addition, it never bursts when the market participants have a kind of pessimistic views, but when everyone becomes optimistic. While we are now in an excess liquidity environment, the economic recovery is still at an early stage. We also hear negative stories much more than expected from some market participants. Given the above, I expect strong economic growth globally this fiscal year, not a bubble burst.

Q2. In which area do you focus the collaboration with other business units?

A2. One area is in our sales & trading business. To provide best solutions to our customers, we are working closely with the Wholesale, Global and Retail business units. Another area is related to our investment portfolio management. We try to utilize machine learning models and other technologies, where we are collaborating with specialized groups such as Data Management Department.

Q3. How do you evaluate pros and cons of handling both portfolio management and sales & trading business under the same business unit?

A3. To provide best solutions to clients, you need to identify what kind of risks they would like to hedge or take. To do so, it is essential for you to have a developed skill to precisely capture how the markets will evolve.

All of banking, trading and sales teams in the Global markets business unit are working very closely to achieve best results in both of portfolio management and sale & trading business. It would be difficult to provide truly good services if only the sales team independently faces our clients.

I believe, we can sufficiently meet various needs of our clients with the powerful capability to capture the future global trends. Therefore, it is so important for us to handle both businesses under the same unit.

5. CFO session

Toru Nakashima, Senior Managing Executive Officer

Q1. What is the outlook of your shareholder return policy?

A1. The biggest reason why we decided not to announce share buybacks in May was that we had concern whether we can achieve our bottom-line target of JPY 600 billion. The infections in Japan were increasing under the 4th wave and the vaccination had not progressed sufficiently in April 2021 when we made our decision.

In addition, banks' restrictions on shareholder returns had not completely lifted even in the U.S. and Europe where the vaccination is much more progressed. We considered to be careful on share buybacks for a while and decided not to announce in May.

Recently, the vaccination in Japan is progressing more rapidly than expected and we are more confident to achieve our target compare to April. We are currently considering inorganic strategies including FE Credit in Vietnam, but we have sufficient capital for share buybacks even if we use certain capital for those transactions.

Regulators in the U.S. and Europe are also loosening the restrictions for share buybacks.

We will carefully monitor the situation and pursue the opportunity for enhancing shareholder returns including share buybacks during this fiscal year.

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