Major Q&A at SMBC Group IR Day 2024

1. Wholesale Business Unit

Muneo Kanamaru, Deputy President and Executive Office

Q1. What is the factor of loan spreads improvement and the strategy going forward?

A1. We have steadily increased high-value-added loans such as the PE fund and real estate businesses, as well as gaining clients understanding through careful explanations to secure appropriate interest margins on existing loans. As the interest rates rise, loan interest rates, including the base rate, will also increase. We aim to further expand the loan spread by capturing clients' funding needs and engaging in thorough negotiations.

Q2. What is the competitive landscape for acquiring deposits?

A2. As clients becomes more sensitive to interest rates, the competition among banks will become fiercer. I do not plan to significantly change our pricing strategy at this point but will carefully assess actions of our peers, as well as clients' preferences. By firmly capturing the commercial flow through transaction banking solutions, we aim to acquire settlement deposits.

Q3. What areas can we expect upside from the initial targets?

A3. PE fund and group real estate business are the areas where we can anticipate upside with higher interest margins and steady asset growth. Strong demand in corporate loans, especially for capital investments, will also lead loan growth and margin improvement. For deposit, we aim to enhance profitability by acquiring sticky liquid deposits, as interest rates have finally started to rise. We have already surpassed the targets of the Medium-Term Management Plan, but as the Head of the Business Unit, I feel there is still room for further growth.

Q4. What are the medium- to long-term challenges?

A4. We need to adapt our network to the changing environment. For the large corporations, we will further strengthen our capabilities to provide highly specialized solutions through face-to-face interactions. This requires expertise of each individual. Therefore, human resource development in the medium- to long-term will be crucial to address our clients' complicated management issues. In SME business, we will establish a system to broadly deliver services to many clients. By developing online payment services, we aim to increase fee income by reaching clients that we could not serve face-to-face before.

2. Retail Business Unit

Takeshi Yamashita, Executive Officer and Senior Managing Director

Q1. What is the profitability of Olive and its future prospects?

A1. Revenue of the payment business follows the J-curve pattern: we first incur the costs to expand customer base and then volume of sales handled increases. By steadily acquiring customers, we are on track to achieve a single-year profit in FY3/25, offset accumulated losses during the next Medium-Term Management Plan, and eventually contribute tens of billions of yen to net business profit in the future.

Olive will contribute to our profit through deposits, credit card, consumer finance, and asset management. Currently, both deposit balance and credit card usage are increasing. In the future, I anticipate further profit growth from additional non-financial businesses.

Q2. What is the strategy for acquiring deposits and the earnings outlook?

A2. We will expand our customer base with Olive, as acquiring sticky liquid deposits is becoming important. The deposit balance of new account holders in the first year after Olive's release has increased to 135% year on year. We aim to maximize the benefits of rising interest rates by accumulating more deposits. Although deposits have been unprofitable due to the negative interest rate policy, I expect a V-shaped recovery in a future environment with positive interest rates and a significant growth potential.

Q3. What are the challenges in expanding the wealth management business?

A3. In Japan, with more than 1 quadrillion yen in cash and deposit, our challenge has been to shift more money from savings to investment and asset building. This shift has finally started thanks to NISA and financial literacy improvement. SMBC Group, is promoting the medium- to long-term diversified investment and consulting on a "goal-based approach" with appropriate risk and return. For affluent customers such as business owners, we launched SMBC Private Wealth in 2020 and the AUM are steadily expanding. NISA accounts is also increasing through our partnership with SBI Securities. We continue our efforts to expand the wealth management business.

Q4. What is the outlook for RWA increase?

A4. RWA increased in FY3/24 was mainly due to the expansion of the payment business. On the other hand, ROCET1 was align with the plan as gross profit increased due to asset-light wealth management business and an increase of deposits. We will continue to invest in growth areas and aim to raise ROCET1 as a whole to avoid stagnation due to asset constraints while improving the profitability of mortgage loans to enhance capital efficiency.

3. Global Business Units

Yoshihiro Hyakutome, Executive Officer and Senior Managing Director

Keiichiro Nakamura, Executive Officer and Senior Managing Director

Q1. What is the approach to optimizing business portfolio?

A1. We are reallocating capital for businesses that are expected to achieve higher growth and profitability, while reducing low-profit assets and those with less chance to improve profitability through gaining other fee income from securities business. We are also withdrawing from non-strategic areas including the sale of the U.S. freight car leasing business. Through this initiative, we would like to achieve both bottom-line profit growth and an increase in ROE.

Q2. How were profitability criteria reviewed at the regional and business line level?

A2. Profitability criteria is reviewed based on our CET1 target to realize both increasing profit and leveraging capital. We aim to achieve overall target of the Business Unit as a whole, while setting appropriate targets for each business depending on its risk and return. By reviewing ROCET1 and investing capital in more profitable fields as soon as possible, we would like to further increase returns and profitability.

Q3. What are the efforts to achieve the targets of the Multi-Franchise Strategy?

A3. The FY3/24 result was lower than initial expectation, primary due to the goodwill impairment of FE Credit in Vietnam. However, we believe that we can catch up with business performance from this fiscal year onward and achieve the FY3/26 target by the implementation of measures by each company. SMICC and BTPN are expected to drive growth in particular, through expansion of assets supported by the economic growth of each country. We will focus on optimizing portfolio, reducing cost, improving margins, and controlling credit cost. In Vietnam, we will take firm actions to achieve the target as the macro environment is expected to stabilize.

Q4. How much will expenses increase, including cost for enhancing governance?

A4. Costs are increasing as it is required to establish an appropriate governance structure amid stricter supervision by authorities in various countries. We will review our cost structure and further promote administrative consolidation to ensure balanced cost control in line with revenue growth.

4. Global Market Business Unit

Masamichi Koike, Deputy President and Executive Officer

Q1. What are the factors of positive result for FY3/24 and the outlook going forward?

A1. We achieved strong results in FY3/24 due to nimble portfolio management operations and successfully capturing customer flows in the S&T business. However, the revenue of the Global Market Business Unit is heavily influenced by market conditions and cannot be built up incrementally. Especially in the second half of this year, with global events such as the U.S. presidential election, I cannot be overly optimistic about our financial targets. We will remain committed to securing revenue whenever there are investment opportunities.

Q2. What is the potential of the yen interest rate business in Sales and Trading?

A2. The normalization of monetary policy has increased business opportunities. Since we have many transactions with overseas investors, we aim to grow steadily by collaborating globally. As yen interest rates continue to rise, we expect the market to deepen like the U.S. interest rate market, where various futures are actively traded. I believe that creating such an environment for market participants will also contribute to Japan's regrowth.

Q3. What is the policy for bond management?

A3. For yen denominated bonds, while rising interest rates increase investment attractiveness, there is also the risk of significant valuation losses if interest rates rise more than expected. Therefore, we will carefully assess the future direction of interest rates and cautiously decide on increasing interest rate risk exposure.

For foreign bonds, we are currently assessing how the market will evolve. The current inverted yield curve's resolution remains uncertain, so we believe it is necessary to manage the foreign bond portfolio cautiously. The increase in balance during the first quarter was within the scope of agile operations and does not indicate a long-term commitment to building the portfolio.

5. CFO Sessions

Fumihiko Ito, Group CFO

Q1. What is the current business environment and the outlook for the first half?

A1. We made good progress in the first quarter and maintained strong momentum into the second quarter.

Our financial targets for FY3/25 were set based on the most like scenario as of this May, while targets of last year were based on more conservative assumptions. We will continue to manage our business operation firmly to achieve this goal.

There are some positive upsides which we did not include at the beginning of the fiscal year: strong progress on the Medium-Term Management Plan, additional interest rate hikes by the Bank of Japan, higher pace of reductions in equity holdings, and low credit costs. We plan to take measures to increase the likelihood of achieving our ROE in the medium term: accelerating the sale of low-profit assets, recording drastic provisions for interest repayment in the domestic retail business, and booking forward-looking provisions. I would like to implement these measures from an early stage of this fiscal year.

Despite the expected continuation of an uncertain business environment due to current market volatility, we will make every effort to achieve our goals.

Q2. What is the basic capital policy?

A2. There is no concern on our current capital level, with a CET1 ratio of 10.3% as of the end of June 2024. Our basic capital policy remains unchanged: maintaining a 40% dividend payout ratio and allocating excess capital to growth investments and share buybacks in a balanced manner. As explained in May, we will consider additional share buybacks during the fiscal year depending on the future capital position, financial progress, growth investment opportunities, capital efficiency, etc.

To achieve the ROE target for the next fiscal year, as CFO, I will allocate capital appropriately to improve capital efficiency.