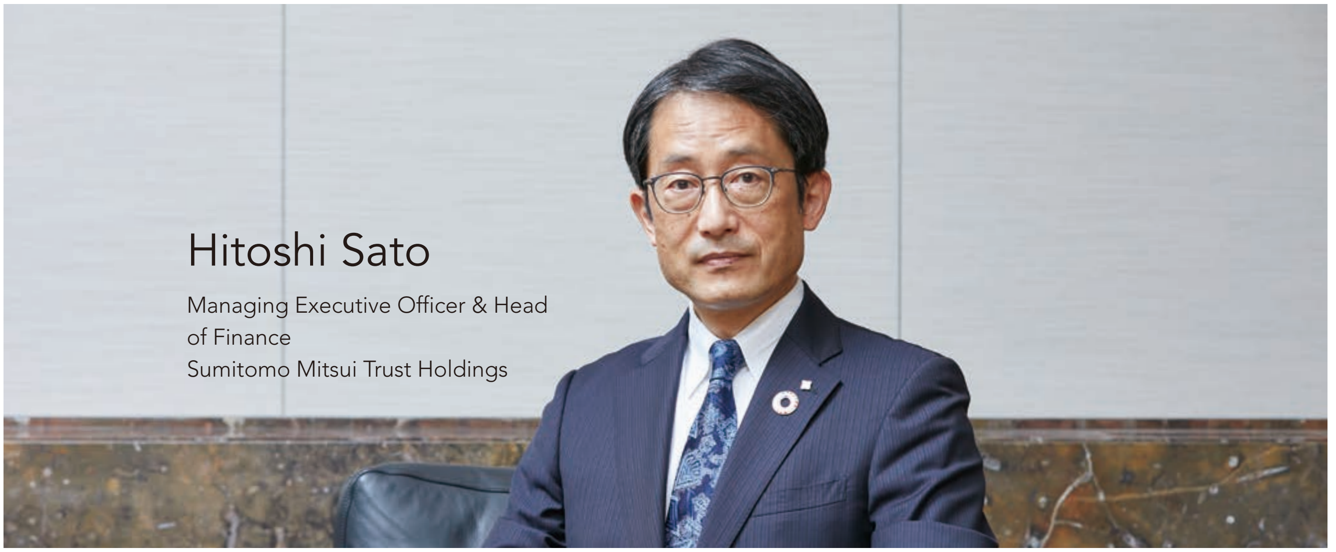
Message from Head of Finance



Hitoshi Sato

Managing Executive Officer & Head of Finance
Sumitomo Mitsui Trust Holdings

1. Review of FY2019—the final year of our FY2017–2019 Medium-Term Management Plan

In FY2019, net business profit before credit costs increased ¥6.7 billion year on year to ¥289.0 billion, which was more or less in line with our forecast. This was mainly attributable to growth in non-interest income related to business for corporate clients and brisk results in real estate, fiduciary services, and other trust-related businesses, which overall offset a decline in income from investment management consulting for individual clients. Meanwhile, net income attributable to owners of the parent fell short of our forecast, decreasing ¥10.8 billion year on year to ¥163.0 billion, mainly because in light of the uncertainties about what kind of impact the COVID-19 pandemic will have on the earnings of our client companies, the Group booked special loan loss provisions of some ¥25.0 billion (around ¥17.0 billion after tax) as a preventive measure against the sectors and businesses expected to be hardest hit. If we were to exclude the impact of booking special loan loss provisions, we attained, or nearly attained, our targets for both net income attributable to owners of the parent and shareholder ROE.

(¥ bn)	FY2016 (actual)	FY2017 (actual)	FY2018 (actual)	FY2019		
				Forecast	Actual	(excl. special provisions)
Net business profit before credit costs	232.3	270.5	282.2	290.0	289.0	
Net income attributable to owners of the parent	121.4	153.9	173.8	180.0	163.0	Roughly 180.0
Shareholder ROE	6.07%	7.4%	7.95%	Around 8%	7.12%	7.8%

Looking back on the three years of our previous Medium-Term Management Plan, our fee businesses performed strongly. In particular, the stable income ratio for recurring revenue as a percentage of net fees and commissions and related profit steadily increased. We also made progress on improving profitability in our loan/investment businesses, mostly in the area of foreign currency-denominated loans. We also kept our overhead ratio roughly in line with plan. While some challenges have now become apparent, for example, we need to offer more in-depth solutions to individual clients depending on their age group and further improve capital efficiency of loan assets based on the finalization of Basel III regulations, my overall assessment of the previous Medium-Term Management Plan is that for the most part, we achieved our key initiatives and KPIs.

Fee businesses

	FY2016	FY2019
Stable income ratio (mainly recurring revenue)	74.1%	76.7%

Loan/investment businesses

	As of March 31, 2017	As of March 31, 2020
Foreign currency-denominated loan spread (managerial accounting basis)	0.94%	1.10%

Expenses

	FY2016	FY2019
Overhead ratio (OHR)	64.5%	61.1%

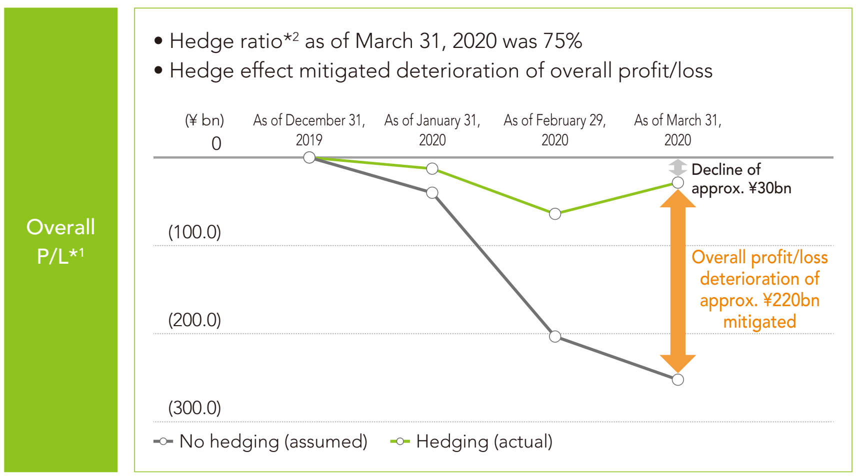
2. Resilience

Our management resilience is once again being questioned as a result of the growing uncertainties stemming from the COVID-19 pandemic. I am confident that the SuMi TRUST Group is endowed with a comparatively high level of resilience in terms of our business foundation and risk management practices.

For the former, we can point to the establishment of a fee revenue base that boasts a high stable fee ratio based on a long-standing and solid client base comprising both individual and corporate clients primarily in our trust-related businesses.

■ Hedging transactions on strategic shareholdings

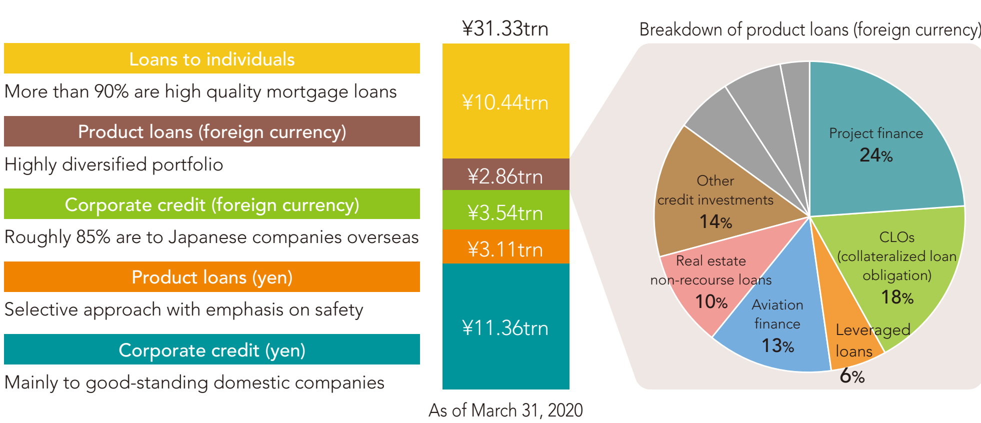
Impact of share price declines (December 31, 2019–March 31, 2020)



*1 Total of change in profit/loss and realized profit/loss (profit/loss on sale) since the end of December 2019
*2 Percentage against market value of strategic shareholdings
"Hedging" data based on strategic shareholdings and strategic shareholdings hedge fund; "no hedging" data based on strategic shareholdings only

As for risk management operations, we continue to minimize as much as possible risks related to strategic shareholdings, for example. As a result, even when share prices nosedived from the end of December 2019 through to March 2020, we were able to avoid significant valuation and realized losses in our equity portfolio. For credit risk management too, we have endeavored to curb downside and credit concentration risks under a stringent credit policy that applies to loans extended to either individual or corporate borrowers. Most of our loans to individuals are mortgage loans for high-income earners, while the lion's share of corporate credit goes to first-rate domestic companies. And for product-related assets such as project finance—an area of focus for our overseas portfolio—we have continued to strengthen our practices with respect to safety and diversification of risk.

■ Overall picture of credit portfolio



3. Basic strategies in our new Medium-Term Management Plan (FY2020–2022)

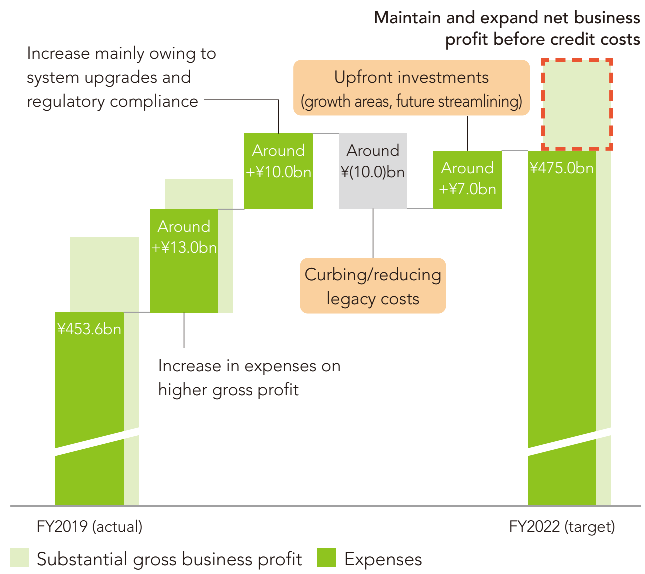
Our new Medium-Term Management Plan that kicks off this fiscal year hinges on the following three basic strategies. Below I discuss each in turn from a financial point of view.

(1) Strengthening our business portfolio (reinforcing foundation for sustainable and stable growth)

In order to strengthen our business foundation and establish new areas of growth in existing business domains, we will look to optimally allocate and shift management resources, including human capital, IT & equipment, and financial capital, and pursue a strategic resource mix by distributing, circulating, and integrating resources between businesses. During the period of this Medium-Term Management Plan, we plan to counteract an increase in costs arising from system upgrades and regulatory compliance by reducing legacy costs centering on office expenses and also secure room for upfront investments designed to establish growth areas and keep a lid on future overheads. That said, our policy going forward will be to accelerate our review of the resource mix with a view to how we communicate with our clients in the new normal of a post-COVID-19 era. For FY2022 we target a consolidated overhead ratio (OHR) in the lower 60% range and upper 50% over the medium to long term.

(2) Capital strategy (balance sheet, efficient use of capital)

The objective of the Group's capital strategy is to strike the best balance between capital sufficiency and efficiency



Capital sufficiency
Common equity tier 1 capital ratio*
Stably maintain in the 10% range (medium- to long-term target)

Pursue the best balance

Capital efficiency
ROE
Around 7% (FY2022 target)
Around 9% (medium- to long-term target)

Business strategies	Capital management	Return of profits to shareholders
• Strengthen fee businesses • Improve profitability vs. risk assets	• Strategic investments (external growth, efficiency improvements) • Flexible and expeditious share repurchases	• Strengthen shareholder returns through dividends whilst striking the right balance with capital accumulation

*Based on finalized Basel III standards

with the following three measures: (1) improving profitability against the cost of regulatory capital through our business strategies; (2) effectively utilizing capital; and (3) strengthening shareholder returns through dividends. In aiming to achieve this best balance, our plan calls for a FY2022 common equity tier 1 capital ratio (finalized Basel III standards) in the mid-10% range and a ROE of around 7%. The first measure above will be driven by two initiatives: strengthening the liquidation of loan assets and ongoing reductions in strategic shareholdings. For the second measure, our policy will be to aggressively execute strategic investments designed to tap external growth opportunities and improve the efficiency of operations in each business. The third measure (discussed further below in 4. Shareholder returns policy) will be implemented in conjunction with continuous share repurchases whilst maintaining an optimal balance with the first two measures.

(3) Sophistication of business quality (ability to create new businesses and improve existing ones)

The sophistication of business quality rests on a two-pronged approach involving the enhancement of the Group's business management together with the maximization of added value for our clients, or in other words, the enhancement of service quality. For the latter, as a financial group specialized in trust banking, we will work on giving shape to our management philosophy of balanced creation of both social value and economic value by improving the quality of, and differentiating, our services in mainly fee businesses. Even though we only forecast a slight increase in net business profit before credit costs in FY2022 compared to FY2019, by pushing ahead with initiatives that bring about qualitative improvements and enhancements to our bottom line, we hope to lay the foundation for growth during the next three-year period.

4. Shareholder returns policy

Based on the recognition that we are now much closer to a phase during which we can actively utilize the capital we have steadily accumulated thus far, from FY2020 we decided to make changes to our policy on returning profits to shareholders.

In our new shareholder returns policy, we intend to further clarify our stance on emphasizing dividends as a means for returning profit to shareholders in line with earnings growth, raise our consolidated dividend payout ratio target from around 30% at present to around 40% in or around FY2022, and carry out share repurchases in a flexible and expeditious manner from the viewpoint of effectively utilizing capital.

When considering the repurchase of shares, we will comprehensively take into account the following three factors: (1) capital sufficiency; (2) balance with strategic investments; and (3) the Company's share price.

Going forward, as a financial group specialized in trust banking, we aim to steadily enhance returns to shareholders in step with the Group's sustainable and stable growth.

■ Shareholder returns policy

Our approach remains the same as before: Aim to bolster shareholder returns in line with the Group's goal of sustainable and stable profit growth.

Changes to shareholder returns policy:

	Before	After
Consolidated dividend payout ratio	Around 30%	Around 40% in or around FY2022
Share repurchases	Around 10%*	Flexibly buy back shares from the viewpoint of effectively utilizing capital

*Ratio of amount of shares acquired versus net income attributable to owners of the parent this fiscal year

5. In conclusion

Not only has the COVID-19 pandemic prompted us to reassess the need to be prepared for a whole host of uncertainties, I believe it will also be a catalyst for change and open up new opportunities for the Group, such as heightened demand for asset administration services, increased digitalization, and acceleration of non-face-to-face channels deployment. In addition to the resilience derived from our business model and risk culture that I touched upon above, in this day and age, our ability to take up the challenge of business innovation, and the speed at which we do so, will be called into question more than ever before.

From a financial perspective too, the Group will continue to help maximize positive impacts on various stakeholders by appropriately controlling financial risk, promoting a strategic resource mix, and actively making effective use of capital. We therefore aim to shore up our business foundation during the three years of the Medium-Term Management Plan with the goal of realizing sustainable and stable growth of the Group and further boosting our presence in the financial sector.