Message from Head of Finance and Treasury

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Introduction

It is my great privilege to be appointed as Head of Finance and Treasury in April 2021.

While the COVID-19 pandemic has made it extremely difficult to make predictions about the future simply based on what has come before us, I am committed to managing the SuMi TRUST Group's financial and capital operations with a view to sustainable and stable growth by constructively addressing social issues.

Review of FY2020—the first year of our Medium-Term Management Plan

Under our Medium-Term Management Plan that commenced last fiscal year, we intend to achieve further progress on transforming our business model whilst bolstering our business platform over the duration of the plan by aggressively tackling the social issues that confront mainly individuals, corporations, and investor clients.

In reviewing earnings for FY2020, the first year of the Medium-Term Management Plan, my assessment is that we were able to demonstrate a certain level of resilience even during the coronavirus crisis.

Net business profit before credit costs deteriorated in the first half because of a downturn in income from investment management consulting and real estate brokerage services when we voluntarily suspended operations following the declaration of the first state of emergency. In the second half, however, net business profit gradually recovered mainly attributable to familiarization with online-based operating activities. Profit was also boosted by brisk recurring sources of revenue and one-off factors such as partnership investment earnings in connection with higher share prices.

	(¥ bn)	FY2019 (actual)	FY2020 (actual)	YoY	FY2021 Forecast	FY2022 Plan
Profit indicators	Net business profit before credit costs	289.0	294.7	5.6	280.0	290.0
	Net income attributable to owners of the parent	163.0	142.1	-20.8	155.0	190.0
Profitability indicators	Fee income ratio	54.6%	52.9%	-1.7%	Mid-50% range	Upper 50% range
	OHR	61.1%	60.1%	-1.0%	62.2%	Lower 60% range
Financial indicators	Return on equity*1	6.25%	5.41%	-0.84%	Upper 5% range	Around 7%
	Common equity tier 1 capital ratio*2	9.7%	9.4%	-0.3%	Mid-9% range	Mid-10% range

*1 (Net income attributable to owners of the parent / (FY-start total equity + FY-end total equity) ÷ 2) x 100
*2 Based on finalized Basel III standards

In addition to booking write-downs at the extraordinary profit/loss line and below on mainly software assets in anticipation of the so-called "New Normal," net income attributable to owners of the parent decreased because we endeavored to improve our hedge position costs by partially realizing both valuation gains on strategic shareholdings and valuation losses on hedging transactions. That said, we still achieved our initial net income target of ¥140 billion.

On the whole, I believe we made steady progress in the first year of the new Medium-Term Management Plan.

Medium-Term Management Plan objectives and financial challenges

Under the new management structure adopted from April 2021, our policy going forward will be to squarely address social issues and accelerate the promotion of businesses distinctive of a trust banking group.

From a financial point of view, we are aiming to accelerate adoption of a capital-light business model and balance financial soundness with return on capital at the highest level possible.

In terms of the Group's financial health, we aim to stably maintain our common equity Tier 1 capital ratio above 10% range based on the finalized Basel III standards slated for implementation in the fiscal year ending March 2023. Estimates as of the end of March 2021 indicate that the ratio is adequate at 9.4%, but we will continue to work to further strengthen our financial footing and control risk assets.

At the same time, we will strive to improve return on capital by pursuing qualitative changes. To be more specific, this approach will hinge on three initiatives: (1) further bolstering our fee businesses; (2) improving the profitability and efficiency of loan/investment businesses; and (3) cost structure reforms.

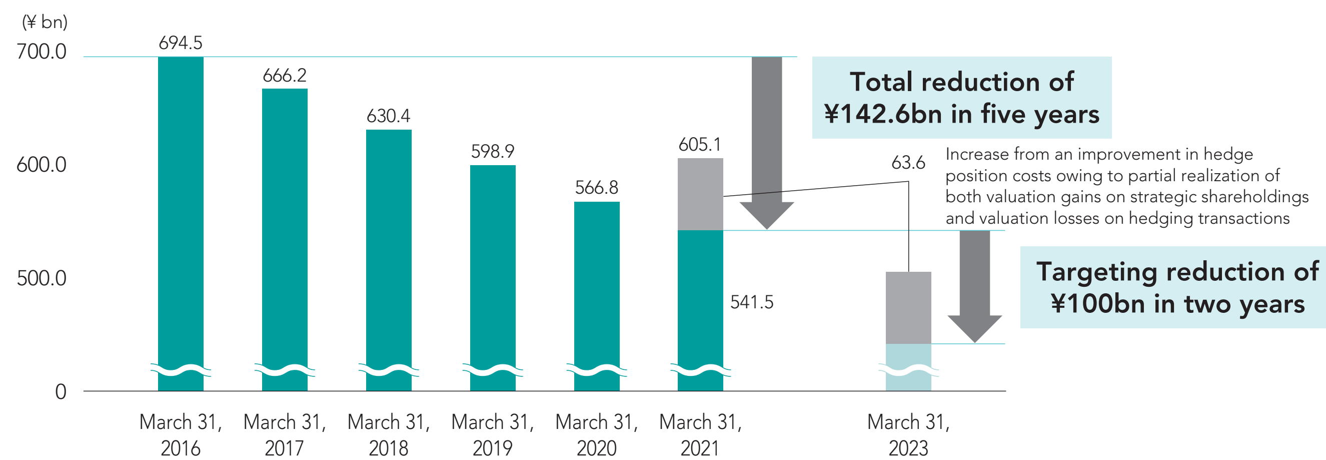
For cost structure reforms, we have hitherto sought to mainly reduce legacy costs, but we will further implement additional measures so that we can respond to new changes in the operating environment, namely, the diversification of working styles and the use of online channels.

The capital and resources we raise from the aforementioned initiatives will be used to further promote a strategic resource mix by, for example, strategically investing in growth areas and making upfront investments designed to keep a lid on future overheads. In this way, we will endeavor to strengthen and pursue a business portfolio distinctive of a trust banking group.

Reduction of strategic shareholdings

Since our establishment through a management integration in 2011, the Group has held a considerably large exposure of strategic shares compared to our capital base. In recognition of this issue, we have continuously worked to reduce our strategic shareholdings with the understanding of our clients. On an acquisition cost basis, we have so far

■Balance of strategic shareholdings (book value of Japan-listed stocks)



reduced our holdings by a total of ¥356.7 billion. And from the perspective of limiting the financial impact of fluctuations in market value while holding these shares, as of the end of March 2021 we have hedged price movement risks equivalent to roughly 80% of the market value of our strategic shareholdings. Nevertheless, our strategic shareholdings pose a financial challenge because we still hold quite a sizeable amount compared to our equity capital.

The SuMi TRUST Group has long utilized the functions of trusts to generate social and economic value by proactively helping to solve social issues.

Now, one of the objectives of our new management structure is to establish a virtuous circulation of funds, assets, and capital that delivers benefits to households through the enhancement of corporate value. Based on this philosophy, we are realigning our investment policy, so that, in principle, we shall not hold strategic shares as a conventional stable shareholder.

In light of the environment that currently envelops corporations, we will look to deepen understanding and accelerate our reduction of strategic shareholdings by engaging in constructive dialogue and providing solutions that cater to the respective circumstances of every client.

More specifically, in the remaining two years of the Medium-Term Management Plan (through FY2022), we aim to nearly double the pace of reductions executed thus far and reduce strategic shareholdings by ¥100 billion on an acquisition cost basis (or around ¥250 billion based on market value).

Capital strategy and shareholder return policy

To achieve sustainable and stable growth, as well as the steady enhancement of shareholder returns, the objective of the Group's capital strategy is to strike the best balance between capital sufficiency and efficiency with the following three measures: (1) improving return on capital through business strategies; (2) effectively utilizing capital; and (3) strengthening shareholder returns through dividends.

In aiming to achieve this best balance in FY2022, the final year of the Medium-Term Management Plan, we are targeting a common equity Tier 1 capital ratio (finalized Basel III standards) above 10% range and ROE of around 7%.

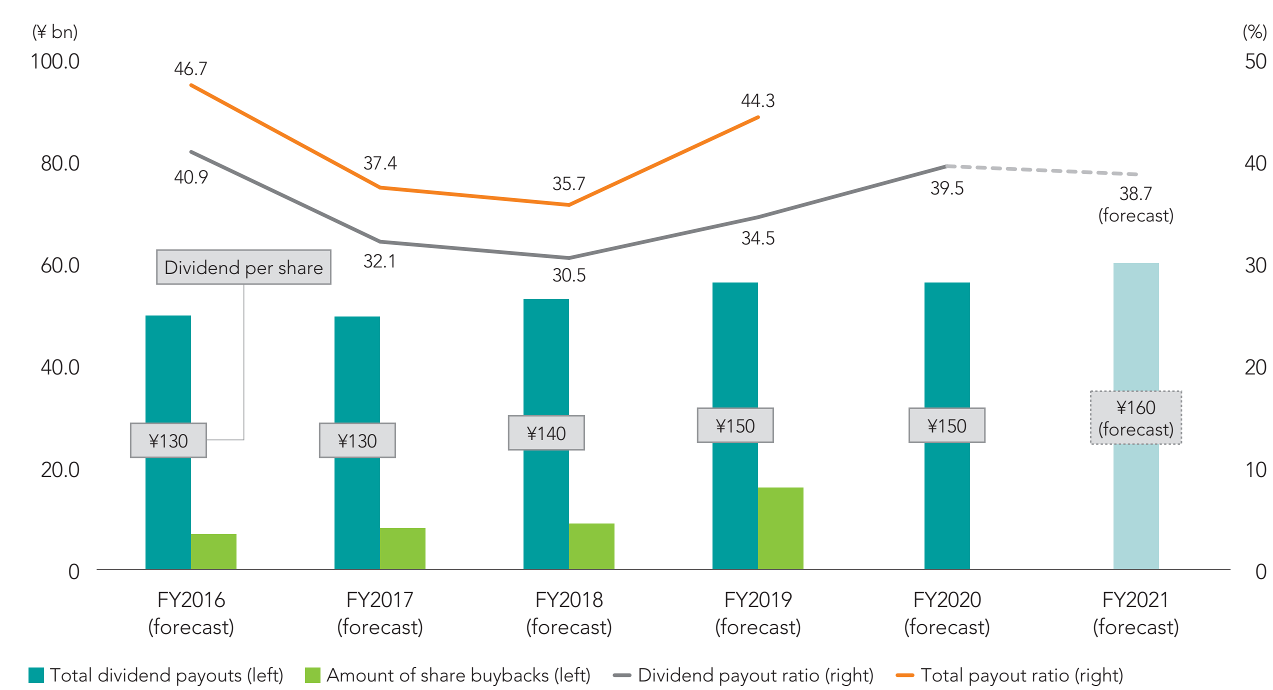
As we strive towards meeting these targets, for the first measure, we will bolster our fee businesses, improve the profitability and efficiency of loan/investment businesses, execute cost structure reforms, and reduce strategic shareholdings, all of which I mentioned earlier.

For the second measure, our policy will be to vigorously execute strategic investments designed to tap external growth opportunities and improve the efficiency of operations in each business.

For the third measure, as a means for returning profit to shareholders in line with earnings growth, we will raise consolidated dividend payout ratio to around 40% in or around FY2022.

We also have a policy of executing share buybacks in a flexible and timely manner from the viewpoint of effective use of our capital.

■Shareholder returns



In conclusion

The spread of COVID-19 has brought about a heightened state of uncertainty and accelerated the shift to digital technology, along with other structural changes in society.

The SuMi TRUST Group also swiftly responded to the situation by rapid deployment of online channels and setting up satellite offices for remote work, and we continue to further improve these infrastructure items.

We can expect changes of this kind to occur one after the other in the future. In order to cope with such changes and achieve continuous and stable growth, 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.

As already mentioned in the top message, the SuMi TRUST Group has hitherto contributed to society by taking stock of the changing times, swiftly responding to social issues, and providing solutions. Going forward, we hope to utilize the various functions and spirit of trusts to make further contributions towards solving new challenges in society and building a virtuous circulation of funds, assets, and capital so that we might continue to grow and develop together with society. I hope to undertake prudent management of the Group's finances and capital to support the activities that bring these aims to fruition.