

Telephone conference on Financial Results for FY2022 (May12, 2023)

Questions and Answers

(Respondent: Masaya Yamashiro, Executive Officer of SuMi TRUST Holdings)

Q.1	I would like to know the level of net gains/losses on stocks for FY2025 as envisioned in the new Medium-Term Management Plan.
A.1	We assume that net gains/losses on stocks in FY2025 will be 30.0 billion yen. We will continue to reduce strategic shareholdings.

Q.2	<p>Please tell us about your approach to achieving ROE of 10% or above, which you have indicated as the aspiration.</p> <p>Assuming an ROE of 10% or above and net income of 300 billion yen, Common Equity Tier 1 capital would be about 3 trillion yen.</p> <p>If the size of the Assets Under Fiduciary (“AUF”) is expanded without increasing the balance sheet, the increase in risk-weighted assets should be controlled and the capital requirement should be limited in the future. Given that capital will be accumulated through stable profits, is it correct to understand that the total payout ratio will get closer to 100% over the long term as you improve ROE?</p> <p>I am not asking you to increase shareholder return, but would like to know how you will achieve your aspiration of 10% or above ROE, based on the relationship between capital and ROE.</p>
A.2	<p>In order to achieve our ROE target, we will make appropriate use of capital. There are three options for use: investment as an expense, such as IT investment or human capital investment; investment to contribute to the growth of our business or to solve social issues; and share repurchase.</p> <p>Looking back to the past, after the introduction of Basel III, it was necessary to accumulate capital. Since then, we have reached a certain level of capital accumulation and were able to recover to an ROE of around 7% in FY2022.</p> <p>Looking ahead, we are now in the capital utilization phase, and we expect to see returns in the future from the investments we have made to date. In addition, the new Medium-Term Management Plan cites three key strategic businesses and initiatives in the asset management and asset administration business, while returns from these areas are conservatively reflected in the plan. While some areas, such as private asset-related businesses, require more time to expand their investor base, we intend to accelerate the speed at which returns are realized while making investments.</p> <p>We recognize that share repurchases are an effective way to utilize capital when PBR is below 1.0x, and we will combine share repurchases with other uses of capital to improve ROE.</p>

Q.3	<p>I would like to ask about the CET1 ratio in the new Medium-Term Management Plan.</p> <p>On page 31 of the “Summary of Financial Results” document, the CET1 ratio target for FY2025 is indicated to be around 9.5-10%. This appears to be a lower level than in the past, when the company stated that it was aiming for “stably 10% or above”</p> <p>Do you intend to raise the CET1 ratio to 10% or above in the new Medium-Term Management Plan? What is the target for capital management?</p>
-----	---

(Continued to the next page)

A.3	<p>There is no change in capital management, which aims for stably 10% or above.</p> <p>We are sometimes asked whether capital accumulation is necessary until the CET1 ratio reaches 10%, and since we are utilizing capital even at the current level of about 9.5%, and we have changed the wording to convey this.</p> <p>We do not intend to keep the CET1 ratio level at 9.5-10%.</p>
-----	---

Q.4	Regarding the FY2025 target by business segment, what is the reason for the expected decrease in net business profit of the retail business compared to FY2022, and the expected increase in the global markets business compared to FY2022?
A.4	<p>We plan to make advance investments in human capital, such as the base pay increase implemented in FY2022. Although the investment in human capital is reflected in increased expenses in the retail business, which has a large number of employees, we believe there are significant opportunities in this business area, including the inheritance business.</p> <p>On the other hand, we have factored in the impact from interest rate hikes of about 5 billion yen in global markets business. With the headway in US interest rate rises also in sight, we believe that opportunities for investment will emerge.</p>

Q.5	<p>I would like to ask about the total expenses in the forecast for FY2023.</p> <p>What is the amount of advance investment out of the -40.4 billion yen compared to FY2022?</p>
A.5	<p>We plan to invest about 20 billion yen, including investment in human capital and IT investment such as internal OA renewal.</p> <p>The remainder is an increase in expenses linked to gross business profit. Expenses are 100% factored into the plan, but some revenues are not realized immediately, so the advance investment that we make as expenses is primarily reflected in the plan.</p>

Q.6	Overhead ratio has increased to the lower 60% range in the FY2023 plan, while a decrease to the upper 50% range is assumed in the FY2030 aspiration. You have been operating with controlled expenses, but you expect them to increase in 2022 and 2023. What are your thoughts on achieving an overhead ratio in the upper 50% range?
A.6	<p>There are two points I would like to make.</p> <p>First, within the AUF, we will keep our balance sheet under control and increase our assets under management and assets under custody. The asset management business and asset administration business we focus on have the characteristics of high capital efficiency while having a high overhead ratio.</p> <p>Second, we are increasing IT and human capital investments with the intention of increasing returns on these investments. We recognize that as we make investments, we must also increase returns. We expect the overhead ratio to decline by FY2030, as the benefits of our investments begin to materialize and gross business profit increases.</p>

(Continued to the next page)

Q.7	Regarding your dividend policy, you stated that “the dividend payout ratio will be 40% or above.” What is the intention behind the change from the previous “dividend payout ratio of around 40%”?
A.7	<p>In the previous Medium-Term Management Plan, we increased the dividend by 60 yen, achieving our target of a dividend payout ratio of around 40%.</p> <p>We have also improved our ability to generate earnings, and are now able to generate stable profits.</p> <p>Despite the uncertain environment, the 40% “or above” reflects our intention to take our shareholder returns to the next step.</p>

Q.8	Regarding foreign investment partnership profit/loss, there is a perception that uncertainty in the private equity market has increased since the failure of Silicon Valley Bank. What is your perception of the current environment?
A.8	<p>As you mentioned, we recognize that this is an environment that should be watched closely. The balance of our foreign investment partnership is approximately 400 billion yen, and in terms of the number of funds, we have diversified investments in approximately 250 to 300 funds. We also believe that by holding such investments over the long term, we can enjoy liquidity premiums as excess returns.</p> <p>To deal with the volatility of profit/loss, we have partially adopted an accounting method (J-GAAP) that is less sensitive to market value fluctuations, and we have also put in place a monitoring system to address this issue.</p>

Q.9	<p>I would like to ask about the fee income ratio in the new Medium-Term Management Plan.</p> <p>Although the actual results for FY2022 and the target for FY2025 both remain in the mid-50% range, is it correct to understand that the fee income ratio will remain the same during the new Medium-Term Management Plan period and improve toward 2030?</p> <p>Is it correct to understand that the growth in net income is not due to an improvement in earnings related to fee businesses, but mainly due to gains on stocks and higher earnings in the market business due to higher interest rates?</p>
A.9	<p>The three key strategic business areas identified in the new Medium-Term Management Plan are businesses that contribute to fee revenues.</p> <p>There are differences in progress made on the measures, and the effects of the measures are carefully factored into the planned figures, but we believe there is sufficient upside potential.</p> <p>In addition, we believe there is sufficient upside potential because we have not factored in the upside stemming from the external environment, including rising interest rates and stock markets.</p> <p>We do not believe that there is no upside to the fee income ratio or ROE.</p>

Q.10	I would like to ask about real estate brokerage fees. With interest rates expected to rise, is there any change in the current pipeline?
A.10	<p>In FY2022, both Sumitomo Mitsui Trust Bank and Sumitomo Mitsui Trust Realty achieved record profits due to closing large transactions.</p> <p>Although we are slightly more cautious about market conditions in FY2023 compared to FY2022, we recognize that there is a sufficient pipeline as companies on the supply side are reviewing their office space. Residential properties are also expected to remain strong.</p> <p>Wary of rising interest rates, some foreign investors are cautious about investing in real estate, but there has been no significant change in domestic investors.</p>

Forward-Looking Statements

This document includes notes on future earnings.

Such descriptions are not in any way guaranteeing future earnings and are inclusive of risks and uncertainties.

Please be mindful that future earnings may differ against targets due to changes in the business environment and others.

Further, information relating to companies etc. other than SuMi TRUST Holdings or the SuMi TRUST Group are citations from publicly available information etc. and have not undergone any verification on our part in its accuracy / appropriateness etc. and does not guarantee such factors.

Information carried in this material is solely for the purpose of providing information and is not for solicitation of securities