

IR Day (July 7, 2023) Questions and Answers

(Respondent: Shigeki Tanaka, Executive Officer of SuMi TRUST Holdings, Inc.)

Q.1	From the standpoint of Deputy President and Head of Corporate Business at Sumitomo Mitsui Trust Bank, please share your thoughts and the future direction regarding the improvement of PBR, with respect to the enhancement of corporate value.
A.1	<p>In May of this year, we announced our new Medium-Term Management Plan, in relation to our initiatives to enhance corporate value, but even before the plan was formulated, discussions had been taking place among the entire management team. In formulating the plan, we set a management goal of achieving a PBR of 1.0x or above at an early stage, and based on a common understanding that improving ROE is essential to achieving this goal, we are determining and operating measures in line with the group-wide strategy, with each business unit also being mindful of improving ROE.</p> <p>In terms of the Corporate Business, we will improve the segment ROE of corporate clients, which was 7.9% in FY22, to 8% and further to 10% in the future. Specifically, we will pursue a strategy to reallocate our credit portfolio, shifting low-margin corporate lending to high-margin product-related lending in order to improve its profitability. We will also work to set an appropriate pricing for each product and thereby secure appropriate revenues.</p>
Q.2	How is RORA management being applied in the Corporate Business? Please explain the extent to which RORA management is being implemented at the working level.
A.2	<p>Profitability is analyzed on a per-department and per-client basis. Specifically, we use a matrix to manage profitability and transaction volume, which also takes into account capital costs and expenses. After setting a certain threshold, each branch or department considers improvement measures for clients that fall below this threshold. In addition, we create and monitor a policy once a year for each product-related lending. In this way, the micro initiatives at the department level and the macro initiatives of the business as a whole work in tandem to ensure that they function properly.</p> <p>Recently, we have been working to improve profitability by increasing the ratio of product-related lending and overseas credits, with a focus on sustainable finance, and we will continue this in the future as well.</p>
Q.3	What is the outlook for risk-weighted assets in the Corporate Business during the period of Medium-Term Management Plan? You set the plan to increase impact equity investments while reducing strategic shareholdings, but is it correct to understand that overall risk-weighted assets will increase?
A.3	<p>Risk-weighted assets during the period of the Medium-Term Management Plan are expected to remain generally unchanged. Strategic shareholdings have been continuously reduced, and we will continue our dialogue with corporate clients to reduce the balance to zero. The increase in risk-weighted assets from impact equity investments will be managed within the capital generated by the reduction of strategic shareholdings, and the remaining portion will be allocated to sustainable finance and overseas credits. As for the breakdown of the credit portfolio for corporate clients, we intend to increase the ratio of overseas loans and product-related lending, taking into account the foreign currency funding environment, to improve profitability. In addition to asset reallocating, we intend to maximize sourcing by utilizing investors' funds to further improve ROE of the credit portfolio.</p>

Q.4	Regarding strategic shareholdings on page 19 of the presentation material. Two years have passed since the announcement of reduction of strategic shareholding to zero, and I would like to ask if there are any changes regarding the reactions of counterparties or any financial impacts as a result of the reduction. Please also explain the direction of management regarding bear funds in light of the rise in stock prices.
A.4	<p>At the time we announced that policy in May 2021, the number of corporate clients in which we have strategic shareholdings was 870. Of these, we have reduced our positions partially or to zero for 45% (390 clients) of the clients. In addition, for almost 27% (233 clients) of the clients, our strategic shareholdings have already been reduced to zero. The trend toward reducing strategic shareholdings in accordance with the Corporate Governance Code has also been a driving force, and some corporate clients are in support of our policy of reduction of strategic shareholdings to zero, so there has been no significant negative impact on our business performance so far. Even among corporate clients that had previously wished us to continue to hold their shares, more and more have agreed to us selling their shares, partly because other banks are reducing their holdings more than before or the Tokyo Stock Exchange has requested improvements in response to PBR ratios below 1.0x. In the current fiscal year, we intend to maintain the same pace of annual reduction of 50 billion yen (at cost basis).</p> <p>With rising stock prices, the environment is such that we can expect a reasonable amount of profit from the sale of strategic shareholdings. Accelerating the reduction of strategic shareholdings will create more room for financial operations of bear funds used as hedges, and we would like to proceed with the sale of strategic shareholdings while carefully negotiating with the corporate clients.</p>

Q.5	On page 9 of the presentation material, regarding the impact equity investment, to what extent are there investment needs from investors for the 50 billion yen portion that Sumitomo Mitsui Trust Bank has already invested using its proprietary account. Also, what is your future outlook?
A.5	With regard to impact equity investments, we are planning to leverage our proprietary investments to attract and gather investor funds. However, at this point, all we have done is to introduce our investee companies to investor clients. Since this introduction will not lead to the expansion of our Assets Under Fiduciary (AUF) and earnings growth, we believe it is important to respond to investors' needs in the form of investment products, like providing investment funds, and we are currently considering what kind of investment structure we can offer.

Q.6	On page 4 of the presentation material, the growth of gross business profit from non-lending transactions in the new Medium-Term Management plan seems to be slower than in the previous Medium-Term Management plan. I believe this is partly due to the fact that the real estate business remained strong during the previous Medium-Term Management plan period, but what is the background to this forecast, and what is the future outlook?
A.6	Gross business profit from non-lending transactions includes fiduciary services, stock transfer agency and real estate, which are affected by stock prices or real estate market conditions, and so on. While gross business profit from non-lending transactions was strong during the previous Medium-Term Management plan period due to strong stock prices, the new Medium-Term Management plan sets the stock price assumption lower than the current stock price, which is one reason why growth appears to be slowing down. Therefore, if the current favorable market environment is maintained, we expect an upside in gross business profit from non-lending transactions.

Q.7	<p>With regard to the reduction of strategic shareholdings, it can be assumed negotiations will become more difficult in the future. Do you manage any incentive plans for branches and departments to promote their initiatives?</p> <p>Adding that, I would like to understand the purpose of reduction of strategic shareholdings. Is that to improve ROE or to sophisticate corporate governance? If it is the former, what are your thoughts on the opinion that it would be better not to sell strategic shareholdings with high profitability?</p>
A.7	<p>As a company that plays a major role in the investment chain, our purpose in reducing strategic shareholdings is to contribute to the development of sound capital markets by dissolving strategic shareholdings. We are conducting our reduction activities while explaining this thought clearly to our clients. From a financial perspective, we are also aware of the problem of the large proportion of strategic shareholdings to our equity.</p> <p>Although we do not provide specific incentives for our branches or departments to reduce strategic shareholdings, in order to achieve the annual reduction target of 50 billion yen (at cost), we hold individual meetings with each branch and department at the beginning of each fiscal year to set targets for which stocks to sell, as well as the reduction amounts. The effectiveness of the reduction of strategic shareholdings is ensured through continuous monitoring.</p> <p>As the reduction of strategic shareholdings progresses, hedge costs and offsets of dividend income from bear funds are expected to decrease. In addition, we believe that in the medium to long term, higher returns on impact equity investments will lead to higher ROE.</p>

Q.8	Regarding AUF on page 17 of the presentation material, please explain the connection between the various initiatives of the Corporate Business and AUF.
A.8	<p>While the Investor Services Business, which has a client base of investors, will drive the expansion of AUF as a whole, the Corporate Business will contribute in terms of sourcing for financing such as sustainable finance, impact equity investment, or private assets. Specifically, the Corporate Business will contribute to the expansion of AUF through collaboration with the Investor Services Business by providing assets for infrastructure funds, etc., when they are developed. In addition, although the amount of loan arrangement and distribution conducted by the Corporate Business is not included in the AUF, the Corporate Business will contribute to stable fee and commission revenue growth for the entire company by strengthening these activities.</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.

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