

Telephone conference on Financial Results for FY2023 (May 14, 2024)

Questions and Answers

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

Q.1	I would like to know the breakdown of the 50 billion yen of net gains on stock included in the FY24 forecast. How much do you expect from realized gains of strategic shareholdings and realized loss of bear funds, respectively?
A.1	The forecast is based on the assumption of an 80 billion yen gain on the sale of strategic shareholdings, and a 30 billion yen loss on the cancelation of bear funds.

Q.2	I would like to understand the future pace of reducing strategic shareholdings. We believe you have made good progress against the reduction target through FY23, but what do you assume the pace of reduction in FY24 and beyond?
A.2	In FY24, we will continue to steadily reduce strategic shareholdings. As for the external environment, there are tailwinds throughout the domestic industry, including the acceleration of reductions by non-life insurance companies. Our relationship managers have continued to engage in thorough dialogue with our corporate clients, and we will accelerate our reduction activities to achieve the reduction target as soon as possible. If possible, we would like to achieve the 150 billion yen reduction target ahead of schedule. Our goal is solely to reduce our strategic shareholdings to zero.

Q.3	Based on the current pace of reduction of strategic shareholdings, do you have any plan to clarify when strategic shareholdings will be reduced to zero?
A.3	We believe that we need to be careful about how we send such a message, as indicating a deadline may make it more difficult to advance the sale of strategic shareholdings. On the other hand, we understand that there are opinions and requests from investors that it should be clearly indicated the timing when the amount of our holdings will be reduced to zero, and we will continue to consider it.

Q.4	Regarding the realizing losses from reduction of bear funds with low breakeven point (B/E) and net gains on stocks in FY23. Looking at the status of realized gains/losses on page 16, it appears that the operation was generally implemented as planned, but what are your thoughts? In the previous disclosures, the level of TOPIX 2,920 pts has been highlighted as an impairment level for bear funds, however, today's material shows a level of 3,500 pts, which seems to indicate that the level has been improved significantly. Please explain in more detail about this.
A.4	The forecast for net gains on stocks for FY23 was -160.0 billion yen, but the actual result exceeded this forecast at -188.5 billion yen, due to the acceleration of the reduction of bear funds with low B/E during the fourth quarter. On a gross basis, gains on the sale of strategic shareholdings were 10 billion yen larger than expected, due to accelerated reductions, while losses on the sales of bear funds were 40 billion yen larger than expected.

	Next, regarding the TOPIX levels for impairment, we had disclosed TOPIX 2,920 pts as the impairment level for the bear funds with the lowest breakeven point. On the other hand, the wording in this disclosure material indicates that bear funds with the B/E at TOPIX below 3,500 pts are limited. Although the wording is different, we have made more operations related to bear funds than previously indicated. Specifically, on a futures market value basis, the impairment level of about 75% of the bear funds is above TOPIX 3,500 pts. As a result of the treatment in FY23, we believe that the downside risk on future periodic profit and loss has been significantly reduced.
--	--

Q.5	I would like to ask how the impact of the Bank of Japan's policy change in March has been factored into the FY24 forecast. In which business segment and how much of the impact amount is factored in?
A.5	The FY24 forecast includes an increase of approximately 15 billion yen in Net business profit compared to FY23 as a result of this change. By business segment, the profit growth is expected to be approximately +6.0 billion yen in the Wealth Management Business, and +4.0 billion yen in the Corporate Business, mainly due to the deposit and loan related business, and +5.0 billion yen in the Global Markets Business, mainly due to the ALM business.

Q.6	You explained that you expect an upside in Net business profit for FY25 compared to the original target in the Medium-Term Management Plan. Please give us more details about how much impact has been factored in for each segment.
A.6	Based on the changes in the environment and the strong performance of our business since the release of the Medium-Term Management Plan, we have decided to bring forward the FY25 target by one year, to FY24. The upside for FY25 is indicated by market factors such as the expansion of capital markets, rising yen interest rates, and a weaker yen. Although we cannot provide detailed information by business segment, we expect to see increased revenues related to asset management, asset administration, real estate, and deposit and loan related businesses.

Q.7	I would like to get a sense of how much room there is for net gains on stocks to be higher than expected in FY24 if the reduction of strategic shareholdings could be accelerated successfully.
A.7	For the 30 billion yen that clients have already agreed to sell, specific names have been identified. On the other hand, as for the remainder, unrealized gains differ for each, so the extent to which there is upside in gains on sales will depend on which stocks we sell. However, since we will accelerate our efforts to reduce the balance of strategic shareholdings toward zero, we are sure that there would be upside in gains on sales.

Q.8	With regard to the CET1 ratio on finalized Basel III (fully phased basis) shown on page 17, please explain the factors that caused fluctuations during the period. Also, were there any additional factors that led to the elaboration of the denominator (risk-weighted assets) in the fourth quarter?
A.8	I will explain the factors between the end of March 2023 (9.5%) and the end of March 2024 (10.2%). In terms of CET1 capital, Net income factor was about +30 basis points, the improvement in unrealized gains/losses on strategic shareholdings and bear funds to higher stock prices, including the elimination of unrealized losses on bear investment trusts, was about +70 basis points, and the dividend and share repurchase factor was about -40 basis points. In terms of risk-weighted assets, the yen's depreciation factor

	was about -40 basis points, but has been reversed by approximately +30bp to 40bp due to factors including the elaboration of credit risk calculation toward the finalization of Basel III. In the fourth quarter, there was also an improvement due to the elaboration of credit risk, and the range of improvement was approximately +20bp to +30bp.
--	---

Q.9	On page 20 of the presentation material, regarding the earnings level for FY25, it is stated that “After inspection, review will be considered in the future”. Is one of the main issues in the review process how to make assumptions about yen interest rates?
A.9	<p>As explained earlier, the environment has changed significantly. As a result, we will take on the challenge of achieving the target of 240 billion yen for the final year of our Medium-Term Management Plan ahead of schedule.</p> <p>On the other hand, as for FY 25, we still need to verify how much profit we can accumulate in each business segment. However, we have shown the upside because of the expected improvement in the environment not only for interest rates, but also for foreign exchange and stock prices. As for the yen interest rate, the current forward rate suggests that a +40bp rate hike is factored in by the end of FY24. However, this effect has not been factored into the FY24 forecast.</p> <p>If interest rates were to rise by 40 basis points, based on the current implied forward rate, we estimate that it would boost net business profit by about +35 billion yen per year. (This does not necessarily mean during FY24, as there is a possibility of a delay.) In this case, ROE is expected to improve by slightly less than 1%.</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