Investor Meeting on Financial Results for FY2023 (May 17, 2024)
Questions and Answers

(Respondent: Toru Takakura, President & CEO of SuMi TRUST Holdings
Masaya Yamashiro, Executive Officer of SuMi TRUST Holdings)

Q.1	Since President Takakura took office in 2021, you have been committed to enhancing PBR. Today, you provided a detailed explanation of revenue increase. Could you also comment on your focus on profit growth?
A.1	Our current Medium-Term Management Plan incorporates the necessary initiatives to achieve our aspiration of an ROE of 10% or above by FY30, but the timing of profit realization varies for each. For instance, certain initiatives, such as the shift to product-related lending to improve B/S profitability, are already contributing to profits. Conversely, initiatives like impact equity investments reallocated capital mainly by the reduction of strategic shareholdings require a certain amount of time to manifest their effects. In the Asset Management Business, areas such as the democratization of private assets hold significant growth potential for the future. These are relatively long-term initiatives aimed toward FY30. On the other hand, our efforts in the comprehensive domestic infrastructure fund have reached the stage where we were able to launch and successfully close the first fund in FY23. We can expect the further revenue contributions as we expand to the second and third funds in the future. Additionally, traditional assets have seen early revenue contribution due to the increase in AUM, mainly influenced by external factors such as rising stock prices and a weaker yen. When formulating the Medium-Term Management Plan, we did not fully account for the impact on interest rates hike and stock prices increase. Given the current positive changes in the macro environment, we aim to achieve the "ROE of 10% or above" ahead of FY30 and strive for even higher ROE levels. Alongside profit growth, we are committed to steadily increasing dividends.

Q.2	Despite a significant increase YoY in Gross business profit in the FY24 forecasts, the rise in expenses is also substantial, resulting in Net business profit before credit costs remaining nearly flat. Regarding future expense trends and the feasibility and timing of investment paybacks, as shown on page 28 of the material, can we expect the growth in gross business profit to surpass the growth in expenses from FY25 onwards? Additionally, is it possible to reduce the absolute amount of expenses in FY25 compared to the previous year?
A.2	Based on our business model, it is crucial that we invest in human capital and IT systems in order to seize future revenue opportunities. We are actively recruiting experienced professionals in growth areas, while making the necessary investments. Our IT and systems have also being upgraded to adapt to the next era, resulting in both substantial gross business profit and expenses remaining high for the time being. We carefully plan our spending to ensure investment paybacks, and we anticipate these investments will significantly contribute to future revenues. We will continue to focus on investments that are expected to further expand gross business profit. Please be noted that the expense targets for FY25 on page 28 of the materials are based on assumptions made during the formulation of the Medium-Term Management Plan. The actual expense amounts may differ due to subsequent environmental changes.

Q.3	Regarding the strategic shareholdings mentioned on page 7, the environment is evolving, with the non-life insurance industry also announcing a zero-holding policy. Given these changes, please explain your outlook on the pace of reduction of strategic shareholdings. Additionally, could you share your current perspective on disclosing a target date for reaching zero strategic shareholdings?
A.3	In accordance with the announcement that "the Group shall not hold any strategic shareholdings as a conventional stable shareholder" in May 2021, we are steadily advancing reductions in a manner that maintains long-term relationships of trust with our corporate clients, while avoiding significant negative impacts on our business. In the Medium-Term Management Plan, we set a reduction target of 150 billion yen (cost basis) over three years. However, with the clear signs of rising stock prices and inflation in the spring of 2023, we have accelerated our reduction activities, viewing this as an opportune moment to further our efforts. In FY23, we have already achieved reductions exceeding half of the 150-billion-yen target and have secured agreements for an additional approx. 30 billion yen to be sold. We are now on track to achieve the three-year reduction target of 150 billion yen within two years, bringing forward the plan by one year. We intend to further accelerate the reduction of strategic shareholdings. As for the dialogue with our clients, we have already secured full or partial disposal, or have got their consent regarding the disposal, with 58% of clients, while we are continuing the dialogue with 39% of clients seeking their agreement for reduction. The penetration of the Corporate Governance Code and the Tokyo Stock Exchange's initiatives to improve PBR have positively influenced our clients' stance on reducing strategic shareholdings. Disclosing a specific timeline for reaching zero strategic shareholdings could lead to requests from clients to maintain holdings until near the target date, which we do not consider prudent at this stage. However, we understand that a reasonable number of investors has such an expectation. We will continue to carefully consider if we should disclose a target timeline to ensure constructive dialogue with our clients.

Q.4	Regarding the capital allocation image for FY24 as indicated on page 35, what specific areas of investment are being considered in terms of capital utilization? Additionally, given that the Common Equity Tier 1 (CET1) ratio (finalized Basel III fully phased basis) exceeds 10%, could we expect a larger scale of share repurchase compared to the previous years?
A.4	Our CET1 ratio as of the end of March 2024 was above our target of 10%, partly due to stock price hikes. We will continue to make investments that contribute to our future growth. In terms of impact equity investments, we have made approx. 90 billion yen of investment decisions as of the end of March 2024. Going forward, we will keep our basic discipline to diversify our investment timings and targets. We also expect various investment opportunities by utilizing the "Strategic investment facility for asset management". Besides equity investments in asset management companies, we are considering methods such as injecting seed money into the portfolios of investment products managed by these companies. Given that our PBR remains below 1 time, indicating an undervalued level, we have considered that share repurchase is an effective measure for capital efficiency as well. We will deliberate on this while considering our investment pipeline, business progress, and so on in a well-balanced manner.

Q.5	In the midst of expectations for additional interest rate hikes by the Bank of Japan and the rise of online banks, your ratio of time deposits is approximately 70%, which is higher compared to commercial bank groups. Please share your thoughts on the follow-up rate for yen deposits and how you plan to secure yen deposits for which competition is expected to intensify.
A.5	Many of our banking accounts are not used for daily settlements like those of commercial banks, resulting in less frequent inflow and outflow of funds. We believe that the structure of holding a large amount of long-term time deposits will remain unchanged in the future. Additionally, due to this structure, our deposit follow-up rate is relatively high compared to other banks. On the other hand, as the world is becoming more interest-bearing, we assume that now is an opportune time to further strengthen our business activities, to encourage clients to transfer funds that were previously deposited in other banks as ordinary deposits to us as stand-by funds for long-term investments, time deposits, as well as purchasing insurance and other products. (Supplemental comments by Mr. Yamashiro, the executive officer in charge of IR) Our deposit beta has been conservatively estimated based on past performance to be around 60%. On the other hand, as we mainly hold term deposits with maturities of 2 to 5 years, which face little competition, we also believe that there is a possibility of obtaining more deposit income than currently anticipated when market interest rates rise in a range from 2 to 5 years.

Q.6	Regarding the forecast for FY25 on page 10 of the materials, it is mentioned that "After inspection, review will be considered in the future", could you specify what you will inspect, both on positive and negative sides?
A.6	In striving towards our aspiration for FY30, we are fundamentally committed to steady growth through diligent sales, investments, and efficiency improvements of businesses, including enhanced operational efficiency via digital utilization and efforts of price optimization. However, external factors such as stock prices, exchange rates, and interest rates have significantly changed since we set our aspiration for FY30. Additionally, should there be further adjustments to policy interest rates, there could be additional positive impacts in FY25. Therefore, it is essential to scrutinize and incorporate these favorable conditions in the review. The number of overall costs for FY23 was roughly within the planned range. While it is necessary to be mindful of the potential increase of credit-related costs as a negative factor due to changes in the environment, such as high inflation, there is no specific concern at this point for the FY24 forecast. We recognize that our credit portfolio is relatively less susceptible under such external environments.

Q.7	I would like to ask about the priority of expenses. If additional rate hikes are implemented in the future, it is conceivable that it will push up the Net business profit. In such a case, will you accelerate investments?
A.7	The necessary investments and expenditure for achieving our aspiration for FY30 have been incorporated into the Medium-Term Management Plan in detail, as they can be determined at the discretion of our own. The same applies to the earnings forecast for FY24, where the impact of inflation needs to be separately monitored, but there is a high likelihood that expenses will be spent as planned. Furthermore, in the event of a rise in interest rates, if there is a surplus in revenue beyond the projections, we will consider investments that can be judged to lead to future benefits at that time.

Q.8	The dividend payout ratio, including the commemorative dividend, stands at 43.5%. Could you clarify whether the commemorative dividend is included in the progressive dividend policy?
A.8	The progressive dividend policy applies solely to the ordinary dividend, excluding the commemorative dividend. Nevertheless, we aim to increase the ordinary dividend in FY25, driven by profit growth, ensuring that the total dividend amount surpasses the total dividend level of FY24.

Q.9	Regarding the forecast for FY24 mentioned on page 10 of the materials, does the "+10 billion yen in Net business profit" solely reflect the impact of the removal of negative interest rates? Additionally, for FY25, there is an indication of a 20 billion yen increase in Net income from 240 billion yen to 260 billion yen. Could you provide a breakdown of the factors contributing to this increase?
A.9	The forecast for FY24 primarily reflects the impact of the removal of negative interest rates on which BOJ made the decision in March 2024. For FY25, several factors are expected to contribute to the increase in Net income, and we anticipate any factors are easy to move in a positive direction. Specifically, in addition to the impact of rising interest rates, we foresee improvements in the profitability of our own balance sheet and an acceleration in the reduction of strategic shareholdings, leading to increased gains on sales. We will continue to scrutinize these factors going forward.

Q.10	In reference to slide P16, is it correct to assume that the figure of "Gross business profit: 1 trillion yen" as the aspiration for FY30 does not reflect the environmental changes that have occurred after the formulation of the Medium-Term Management Plan and the aspiration? Additionally, the image on the bottom left of the slide illustrates the timeline for the expansion of gross business profit. Does this imply that significant earnings growth in the asset management business is not expected until close to FY30?
A.10	The disclosed figures for the aspiration in FY30 do not incorporate changes in the external environment since its formulation. To elaborate on the revenue timeline, our initiatives towards B/S efficiency have already yielded results, particularly through the shift to product-related lending, leading to early revenue improvements. While equity investments generally require more time to become profitable, our diversified investment across numerous projects means that the timing of earnings realization is also dispersed, allowing for some early earnings generation. Regarding the asset management business, although we expect it to take some time to grow earnings, the increase in entrusted assets due to rising interest rates and stock prices in FY23 suggests potential for earlier-than-expected earnings growth.

Q.11	In a world with positive interest rates, what are the distinctive strengths of a dedicated trust bank group? Considering that the banking business seems to have a more direct positive impact on profit expansion when it comes to interest rates, what is your perspective?
A.11	As we move away from a prolonged period of negative interest rates and anticipate rising interest rates, Japan is transitioning into a society with positive returns. The demand for domestic funds is increasing, particularly for reforming this country as a green society, including decarbonization efforts. A society with positive return is expected to attract investment funds from both domestic and international investors. Our Group engages diverse businesses, including lending, real estate brokerage, asset management, and asset administration. We are sure that we can significantly benefit from both rising interest rates and the expansion of investments. In our wealth management business, the baby boomer generation in Japan is now over 75 years old, and we expect our individual real estate brokerage business to be flourishing associated with increases of inheritance cases over the next 10 to 15 years.

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