Investor Meeting on Financial Results for 1HFY2024 (November 15, 2024)
Questions and Answers

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

Q.1	Regarding page 19, it appears that the increase in expenses is primarily due to base expenses and revenue-linked expenses, rather than prior investments. Given that the increase in gross business profit is driven by macroeconomic factors such as yen interest rate hikes, it would be expected that OHR should decline. However, OHR has increased. Please explain the timing and likelihood of a decline in OHR, including the rationale for such a decline. Since OHR is a significant indicator for investors, we would like you to increase the resolution of the disclosure more. Other banks are coming up with various ways to present their prior investments. For example, we would like you to make an effort to disclose information by dividing the expenses into existing and new areas.
A.1	Effective cost management and personnel allocation are shown on pages 20 and 21. In existing business areas, we have been able to reduce OHR by continuously efforts to reduce the expenses and the headcount. However, in new business areas, the initial cost burden is higher, and OHR declines as the business scales. As we are currently continuing to make prior investments in growth areas, OHR is increasing as a whole. We believe that investment in human capital and information technology, which take time to yield results, is crucial for achieving sustainable growth in line with environmental and temporal changes. For example, regarding human capital investment, Trust Base Co., Ltd., a digital subsidiary established just after I became president, has expanded its workforce to more than 200 employees, including external support members. Additionally, in ESG-related business, we have been strengthening mid-career recruitment in both corporate management and sales sections. In this way, we are actively investing in human capital in areas where future growth is expected. Regarding IT investments, we are reviewing its existing infrastructure to further increase productivity as technology advances, as well as making defensive investments to prevent cyber-attacks. Since these investments are recognized as “Substantial G&A expenses”, we do not expect OHR to be improved significantly in the next few years. However, I would like to point out that even within base expenses and revenue-linked expenses, there is a certain amount of investment that contributes to growth in gross business profit, which has a similar nature to prior investments. Although the material does not fully demonstrate this point, we would like you to understand that OHR will gradually decline as we move closer to our Aspiration by FY2030 through investments in areas with expected future returns. (Supplemental information from Mr. Yamashiro, Executive Officer) The categories of Substantial G&A expenses on the right-hand of page 19 are consistent with those used for internal management purposes. The term “base expenses” is similar to the meaning of “existing business area,” and as shown on page 20, we are actually making investments that are practically similar to prior investments even within this category. We would like to improve our disclosure so that it is easier for investors to understand the relationship between cost reduction in existing business areas and investments in new business areas that we are challenging and expanding, as you suggested.

Q.2	While the business environment is perceived as a tailwind, Assets Under Fiduciary (AUF) is increasing, and I feel that SuMi TRUST Group is making progress toward realizing a business model unique to a trust group you aim for. On the other hand, despite the growth in AUF and receiving the benefit from rising yen interest rate to the same extent as commercial banks, you have yet to achieve the high ROE with a capital-light structure that you are aiming for. I would like to ask your opinion on whether it is possible to demonstrate superiority in ROE compared to commercial banks in the future.
A.2	We believe we could demonstrate in the first half of financial results we have been moving towards the kind of profit growth that we aim for as a trust group, to some extent. For example, in terms of how capital and RWA are being controlled, the decrease in corporate lending balance is the result of profitability improvement efforts designed to enhance ROE. At the end of September, as a result of the decrease in corporate lending balances outpacing the increase in product related lending balances in the process of reallocating the credit portfolio, RWA decreased and the CET1 ratio increased. The profitability improvement of the corporate credit portfolio is an effort to shift from corporate lending to product-related lending, a more profitable area, and product-related lending is expected to increase in the second half, too. Therefore, the RWA level at the end of FY2024 is expected to be almost the same as that at the end of FY2023. Also, yesterday (November 14), Sumitomo Mitsui Trust Bank, Limited (SuMi TRUST Bank) announced that it will sell 85% of the equity interests in its subsidiary Sumitomo Mitsui Trust Loan & Finance Co., Ltd. (SuMi TRUST L&F) to Concordia Financial Group, Ltd. (CFG) and SuMi TRUST L&F would become a joint venture company. We intend to allocate the capital generated from this to projects with higher ROE. While we intend to continue working with SuMi TRUST L&F, we believe that due to the selection of CFG as our partner, SuMi TRUST L&F will enable to expand its earnings, which had previously been flat. In addition, we are considering the formation of a product offering SuMi TRUST L&F 's assets to investors, which is expected to contribute to the Group's focused areas of asset management and asset administration. While it is possible that ROE may improve due to external factors such as rising interest rates, we believe it is possible to continue to improve ROE by taking advantage of the trust's unique characteristics by improving profitability of the balance sheet, making various efforts in the asset management and asset administration business areas, and making investments that contribute to AUF expansion.

Q.3	What are your thoughts on the range of capital levels in the management of the Common Equity Tier 1 ratio (CET1 ratio*)? The lower limit of the current range is thought to be a little over 10%, but it is difficult to understand the upper limit by which you should actively utilize its excess capital. We are not asking you to strictly adhere to this level, but rather to clearly state the upper limit, which would enhance the resolution of the capital allocation for investors and be positive for the valuation of SuMi TRUST Group.
A.3	In FY2022, when we invested in Apollo's fund, the CET1 ratio temporarily dropped to the low 9% range. However, we believed we could quickly recover to the 10% range, and indeed we did. Currently, we are in the process of making major changes in our business for future growth, and we intend to consider investments aggressively. Therefore, please consider the possibility that the CET1 ratio may decrease if there are large-scale investment opportunities. (Continued to the next page)

	On the other hand, we have no intention of investing at a high price. Since we carefully select projects, there will be cases where the CET1 ratio will temporarily be high due to lack of attractive investment opportunities. For this reason, we do not intend to set a clear upper limit to the range at this time. It is our policy to actively pursue various investment opportunities so that future fruits will be born. Regarding investments, we are specifically advancing the reallocation to assets with high returns as well as equity investments. By leveraging our balance sheet to direct capital towards these assets, we estimate the CET1 ratio to be in the low 10% range by the end of FY2024.

* Basel III finalization fully implemented basis

Q.4	Could you provide insights into the future pace of reducing strategic shareholdings? Currently, you are reducing at a rapid pace of approximately 75 billion yen (cost basis) per year. This time, you have disclosed a plan to reduce the market value of strategic shareholdings, including the deemed shares held, to less than 20% of net assets. I would like to know the pace of reduction in cost basis for the banking account under this plan. Can we expect the same reduction pace as now or do you think the pace will become difficult to maintain due to the increasing clients of difficult negotiations as you proceed with the reduction,? Please also share the progress and status of negotiations with clients.
A.4	We have been accelerating our efforts to achieve our target of a 150-billion-yen reduction in cost basis over the three-year period from FY2023 to FY2025, one year ahead of the initial schedule. We have no intention of slowing our pace in the future, and we intend to continue our efforts in the same manner as now. However, we believe that the amount of reduction seen in a single year will be more volatile in the future. Many of the clients listed as "sold (38%)" on page 8 were relatively small in terms of the strategic shareholdings amount. The remaining clients have relatively large amount. In terms of the status of negotiations with clients, the penetration of the corporate governance code has made it easier to negotiate than before. The percentage of "dialogue on hold" on page 8 remains at 3%, which appears to be unchanged from the past. However, this is due to rounding, and the actual figure is in the low 2% range.

Q.5	It is stated that the CET1 ratio will fall by 70bp mainly due to the capital utilization in the second half of FY2024 on page 24, so I can estimate that the amount will be around 180 billion yen. Deducting the 30 billion yen in share repurchase announced on November 12, the remaining 150 billion yen is thought to be the source of capital utilization, but I would like to ask about the probability of this and the allocation policy.
A.5	Factors that will cause the CET1 ratio to decline include not only capital allocation but also the buildup of product-related lending. We believe that if capital utilization continues at the current progress, the figure shown in the material will be achieved. In terms of the CET1 ratio, there is a possibility that the level may differ from the assumption due to uncertainties such as foreign exchange rates.

Q.6	Is there a possibility of further reviews of the existing business portfolio in the future, such as the partial sale of the equity interests in SuMi TRUST L&F?

A.6	Discussions about the business portfolio reviews have been ongoing at board meetings, both during the formulation stage of the current Medium-Term Management Plan and thereafter. At present, we are taking specific steps to create and allocate resources based on these discussions. We are considering and implementing various initiatives in parallel, and as a result, we have been able to announce to the public like shifting to product-related lending and the partial sale of the equity interests in SuMi TRUST L&F. In order to improve ROE, we will expand our fee-related businesses such as asset management, asset administration, real estate, and inheritance, and improve the profitability of the B/S. The direction of our efforts has not changed from the explanations we have given in the past, and we will continue to work on them in the future.

Q.7	Even if SuMi TRUST Group makes appropriate investments in the future, in a trend of yen appreciation, the CET1 ratio could not decline as much as expected. In such a case, to what extent do you consider an impact of foreign exchange rates fluctuations in your share repurchases decisions? If an impact of the yen appreciation is seen as temporary, would you decide not to repurchase your own shares even if the CET1 ratio is at a high level?
A.7	The foreign exchange rate levels at the end of September and today (November 15) are significantly different, and the CET1 ratio has also changed accordingly. In terms of the relationship between exchange rates levels and shareholder returns, we do not make capital utilization decisions based on short-term currency fluctuations. The basic premise of our approach to return of capital is to steadily increase dividends through stable earnings growth. In addition, we intend to utilize our capital for growth investments that will bear fruit in the future. The decision on whether to repurchase shares will depend on the nature of the growth investments. If many of these investments require time to generate earnings, we may consider share repurchase as a means of returning profits to shareholders prior to paying dividends. In addition, I would like to explain our profit situation. We have a profit structure that is quite resilient to downside, and our fee-related businesses, which are capable of stable growth, continued to grow strongly in the first half of this fiscal year as well. On the other hand, the Global Market Business did not perform well in the first half. The profit outlook for this Global Market Business is cautious, as its performance is influenced by market movements, and it is difficult to predict future trends. When it comes to strategic shareholdings, we were able to reduce many stocks with large unrealized gains in the first half, but future gains on stocks will vary depending on the names and timing to be sold, even if the pace of reduction is not slowed down. In the second half of the year, we will constantly consider share repurchases while keeping an eye on these prospects, the substance and amount of investments, and the balance of capital.

Q.8	I understand the concept of reviewing the business portfolio to a certain extent, but I would like to know the quantitative criteria such as ROE and the effects of business synergies when considering the reconstructing.
A.8	Basically, we are focusing on the level of ROE. We will consider reconstructing our business portfolio and a candidate to be considered is like contributing relatively less towards achieving ROE of 10% or above as a whole. Additionally, we also take into account factors such as synergies and whether these form the revenue base for other businesses.

Q.9	I would like to ask about the policy regarding the sale of bear funds and the hedge ratio for strategic shareholdings in the second half of FY2024, as described on pages 8 and 9 of the materials. I would also like to know the timeline for when the hedge ratio will be reduced to zero. The hedge ratio has already fallen to about 25%, which is the level assumed at the end of the current fiscal year. If you do not sell more bear funds in the second half than originally planned, I estimate that gains on stock transactions will be reasonable amounts, given that there will also be gains from the reduction of strategic shareholdings, which you are working to achieve the target one year ahead of schedule.
A.9	The hedge ratio is planned to be lowered in line with the reduction of strategic shareholdings. Depending on the actual progress of the reduction of strategic shareholdings, it is possible that the ratio will be reduced to zero at an early stage. There is no change in our policy of reducing the hedge ratio. However, the purpose of hedging is to protect capital in the event of a fall in stock prices. If there is concern about a fall in the stock market in the future due to changes in the external environment, there is a possibility that the policy will be changed.

Q.10	The ROE target is set at around 8% for FY2024 and 8% or above for FY2025. However, the actual result for the first half of FY2024 was 8.43%, so it seems that these targets have already been achieved. In light of these points, I would like to know what level of ROE you are currently considering for the end of FY2025, the final year of the current Medium-Term Management Plan, and for the long term.
A.10	It is true that ROE for the first half of FY2024 exceeded 8%, but it should be noted that the capital, which is denominator of the ratio, can rise or fall depending on the situation of valuation differences of strategic shareholdings. However, in my opinion, it is currently possible to achieve 8% for the full year of FY2024. The ROE of 10% or above in FY2030 (Aspiration), which was set at the time the Medium-Term Management Plan was formulated, does not factor in the impact of rising interest rates to any significant degree. Depending on the future external environment, there is a possibility that we will achieve ROE of 10% or above sooner than expected. We will continue to steadily implement the various measures already underway to enhance ROE.