

Investor Meeting on Financial Results for 3QFY2021 (January 27, 2022)

Questions and Answers

Q.1	<p>I would like to ask you about the background behind your decision to hold off on reviewing the Net income forecast and shareholder returns, including dividends, despite SuMiTRUST's strong financial results in 3Q. I also would like you to explain whether or not there are any uncertain factors except Net gains on stocks, and what kind of discussions were held by management in making this decision.</p>
A.1	<p>The main reason for withholding the revision this time was to monitor the stock price level. With the recent decline in stock prices, some may suggest that the outlook is generally favorable for reduction of hedging transactions for strategic shareholdings, but we have decided to take a cautious view.</p> <p>With regard to total credit costs, we are concerned about the impact of the shift in industrial structure. Some of our borrowers are experiencing a certain level of impact on their performance. However, in terms of the impact on Net income forecast, we do not expect any extreme fluctuation at this time, taking into account the budget for credit costs of this fiscal year as well as the status of loan loss provision.</p> <p>Next, I would like to comment on your question on what kind of discussions took place amongst management. The reaction of the market after the announcement of the 1HFY21 results was fully shared by the management, and they discussed whether the timing to revise our forecast was appropriate.</p> <p>As for the revision of the Net income forecast, as we emphasized to mention on page 3 of the summary of financial results as one of the "Key messages," there is no change in what we have been saying since November, and we will continue to consider timely decisions and may announce it taking the stock market level at the time into consideration.</p>
Q.2	<p>If the reduction of hedging transaction progresses well and CET1 ratio is expected to be more sufficient in 3Q compared to 2Q, can we assume that the company is becoming more confident in changing its capital management?</p> <p>Also, is it correct to assume that management is aware of the fact that market expectations for Net income revision will also increase towards the 4QFY21 as a result of the withholding the revision?</p>
A.2	<p>You are correct about all of these points.</p> <p>Although we have not disclosed the CET1 ratio as of the end of December at this time, we recognize that it is approaching our target level. Management is fully aware of the fact that we are shifting to a capital utilization phase, and they are concentrating on the discussion regarding efficient use of capital.</p> <p>We are also very aware of the expectations of the market and shareholders, and we will consider our next communication in a timely manner.</p>
Q.3	<p>Given the fall in Nikkei 225 so far, the valuation loss on hedging position should have improved even without selling them, but what is the level of valuation loss on hedging position as of today?</p>
A.3	<p>The current valuation loss for hedging position is in the low 200 billion yen range.</p>

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Q.4	<p>There were net losses from derivatives and equity derivatives, and we suspect that this was due to the impact of the market moving against expectations, particularly in the market business, for selling positions in bond and equity derivatives. Did you close out such derivative positions by the end of December?</p> <p>I would like to ask if there is any part of the positions left, because it seems like there might be revaluation profit in the 4QFY21 due to recovery from the current market correction.</p>
A.4	<p>As you pointed out, operations of investments in the market business were sluggish in 3Q.</p> <p>This position has been closed out and we are working to recover it with a new position in 4Q.</p>

Q.5	<p>I would like to ask a question about Net gains on stocks. How confident are you that the risk associated with hedging transaction of strategic shareholdings would not be carried over to the next fiscal year?</p>
A.5	<p>Our current stance regarding hedging transaction is that we will not carry over the risk associated with the transactions to the next fiscal year as much as possible.</p> <p>We aim to realize the valuation losses of hedging transaction within the range of expected gains on sales in FY2022.</p> <p>In light of the current market environment, selling operations are becoming easier.</p>

Q.6	<p>What impact will U.S. interest rate hike have on your business performance?</p>
A.6	<p>Since the outright US interest rate position is limited, our interest risk is basically very limited. However, we need to consider the indirect effects. There is a possibility that the stock market will be affected and that the investment management consulting business will also experience a change in investor sentiment. In the past two to three years, we have been upgrading our generation-specific consulting aiming that our clients build a medium- to long-term portfolio. Therefore, we believe that the impact will be mitigated, but we need to be vigilant in the future.</p>

Q.7	<p>Market business profits and the realization of valuation losses on hedging position gave us the impression that financial performance was being managed conservatively.</p> <p>Did Global markets business profits decrease due to market conditions or was it the result of conservative management?</p> <p>I also would like to ask why you decided to sell some of your hedging positions ahead of schedule. Was that based on the 4Q outlook for the stock market?</p>
A.7	<p>There was no intention to suppress profits in 3Q. Global market business did not perform well in 3Q, and some of the losses were realized. We realized valuation losses of hedging transactions ahead of plan in 3Q when stock market declined. At this time, our full-year forecast of ▲30 billion yen in Net gains on stocks has not been changed.</p>

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Q.8	Credit cost was reversed in 3Q, and we recognize that there is no possibility of exceeding the full-year forecast of ▲20 billion yen. What are your plans for the portion of the budget that is not utilized? I understand that it could be carried over as reserves. I would like to know your thoughts on this.
A.8	We assume that a certain amount of credit costs in 4Q due to the effect of shift in industrial structure. We do not believe that our current assumption of a full-year credit costs of ▲20 billion yen is too conservative. In light of our client base, we have not seen an extreme deterioration in the performance of our clients, but a closer look gives us the impression that the number of clients whose internal rating are downgraded are somewhat more than those that were upgraded. Originally, we thought that we would be able to post the special loan loss reserve until March 2022, but we are now re-considering the handling of it.

Q.9	We want to see if losses from hedging positions will remain in FY2022. Is it correct to understand that any remaining impairment risk will be dealt with during FY2021, and that from FY2022 onwards, the losses will be limited to within the range of gains on sales of policy stocks?
A.9	Since hedging positions' B/E vary depending on each hedging position, the key point is to prioritize the reduction of transactions with impairment risk while controlling the realized loss amount. Depending on the level of stock prices, I don't think we will be able to reduce the unrealized losses of hedging positions to zero in FY2021, but we should be able to proceed with operations during FY2021 from this perspective and have an idea of the contracts that need to be addressed by the end of March. Although we are on track to complete the process by the end of March, we are refraining from revising our guidance for this financial year, including this issue.

Q.10	Regarding investment management consulting, since sales volume of investment trust seems to be slowing down QoQ, we would like to know the outlook and momentum for the second half.
A.10	With regard to the slight decrease in the sales amount of investment trusts, there has been no particular change in the flow of client transactions, and we believe that the trend of 1HFY21 is basically continuing. In terms of earnings, there has been an increase in the ratio of passive investment trust products and a shift from high to slightly lower commission rates for insurance products, but the momentum has not changed.

Q.11	Real estate brokerage business has been performing well, but is there any change in the pipeline transactions and your outlook for the second half?
A.11	Pipeline deals for 4Q continue to be reasonably in line with the plan, and are expected to be sufficient to achieve the plan. In particular, the needs of both individuals and corporations on the buyer side are very strong. At present, we continue to see the needs of property sales to supplement financial results in the corporate sector, and we are also seeing steady business opportunities with a somewhat longer time horizon, such as carbon neutrality and supply chain change.

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Q.12	With regard to expenses, both non-consolidated and consolidated expenses increased YoY, is there anything we should be concerned about?
A.12	The increase in gross profit-linked expenses was the main factor for both consolidated and non-consolidated results. Compared to last year, expenses, including personnel expenses, have increased due to increased sales activities, but management does not see this as a problem. Rather, the fact that procurement of some equipment tends to be delayed due to semiconductor shortage is more of a concern.

Q.13	With regard to the reasons to hold off the revision to your forecast, is there any upside or downside factors for 4Q?
A.13	The upside factor is the strong Net business profit. By segment, most of the businesses are likely to exceed the plan except for Global markets. There are no particular downside factors that we can see at this time, but we expect credit costs to be different from those in the first three quarters. However, we do not expect this to be a significant factor in our earnings forecast when we count on full-year forecast of ▲20 billion yen of credit costs and loan loss provision.

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.

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