

Investor Meeting on Financial Results for FY2021 (May 20, 2022)

Questions and Answers

Q.1	<p>Over the past year, especially in the first half of last fiscal year, the stock price performance has been relatively low in Japanese banking sector, despite its strong business performance.</p> <p>I would like to ask the president's thoughts on it, including the background.</p>
A.1	<p>Since stock price could fluctuate due to various factors, it is difficult to identify it specifically but we have analyzed possible factors for stock price performance in the short to medium term and aim to recognize current market expectations.</p> <p>At the same time, in terms of stock prices, we are discussing internally what we need to do to reach a PBR of at least 1.0x in the medium term.</p>
Q.2	<p>It can be said that the current progress of client related business profit appears strong and the ROE on a capital basis is likely to reach 7%.</p> <p>DoE (shareholders' equity dividend rate) has been steadily rising, foreign bond risk has been suppressed, the reduction of strategic shareholdings has been well progressed, and surplus capital has been created, so these efforts to enhance corporate value are considered to have been successful.</p> <p>On the other hand, in the FY2022 earnings forecast, some investors commented that it is difficult to comprehend the reason why gains on the sale of strategic shareholdings do not contribute to net income due to continued improvement in unrealized loss of bear funds and shareholder return policy is not clear. Based on these comments, I would like to ask you to explain your thought again how you aim to give benefits to shareholders and investors by improving the corporate value through the effort for sustainable growth.</p>
A.2	<p>Looking back about 10 years ago when the business integration was carried out, the risk of strategic shareholdings was greater than now, and since it was hedged with bonds, the contribution to profits of our global market business was substantial.</p> <p>After that, while reducing strategic shareholdings, we changed the hedging method from bonds to bear funds. Although the unrealized loss of bear funds has increased due to the rise in stock prices, the operation is being carried out so as not to affect the period profit or loss.</p> <p>And last year, we announced a policy for the reduction of strategic shareholdings to zero.</p> <p>In this way, the points related to hedging instruments and profits have changed, centering on the response to strategic shareholdings.</p> <p>In FY2022, we have gained the ability to achieve the profit level we had set for the final year of the Medium-Term Management Plan without net gains on stocks.</p> <p>I believe we have gained the earning power in each business line especially in typical trust businesses with recurring and stable fee earnings.</p> <p style="text-align: right;">(Continued to the next page)</p>

	<p>For example, compared to 10 years ago, recurring income related to investment management consulting doubled from 15 billion yen to 30 billion yen annually.</p> <p>Stock transfer agency services business income has also nearly doubled from 12 billion yen annually and annual real estate brokerage fees grew to around 35 billion yen to 40 billion yen from 20 billion yen in ten years as well.</p> <p>We successfully increased the profitability of the fee and commission business centered on asset management and asset administration, and I believe we can grow the profit without relying on global market business or net gains on stocks any more.</p> <p>The course of improving corporate value through steady activities of the main business has been firmly established, and we would like to accelerate this flow.</p> <p>Dividend per share doubled in the past 10 years in line with the profit growth.</p> <p>I am sure our shareholders can realize the benefits of our improving corporate value.</p>
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Q.3	<p>Regarding the assessment of the CET1 ratio (on finalized Basel III basis) of 9.9% shown on page 32. Given the current somewhat uncertain external environment, do you think that you would like to keep a slightly thicker capital buffer? With regard to the use of surplus capital released by the reduction of strategic shareholdings in the future, you explained us three main areas; investment in growth, strategic investment such as impact equity and share repurchases. How will you manage the balance of financial capital utilization?</p>
A.3	<p>The CET1 ratio (on finalized Basel III basis) has almost reached our target level of around 10%. Considering the current business environment surrounding us, including various global risk factors, I assume we should be taking a slightly cautious stance but the 10% level also incorporates a certain degree of future uncertainties.</p> <p>With the CET1 ratio at around 10%, we have moved into the capital utilization phase. We believe that we cannot achieve the future growth without sustainable investment and intend to utilize capital mainly in areas of growth that are typical of a trust bank group as well as areas that contribute to solving social issues, such as ESG. From the strategic point of view, we consider investments in these areas as ones of organic growth. These are the areas where we want to ensure growth. We will also invest in human capital, IT/DX, and social capital such as networks with regional banks. In addition, we will also target inorganic investment opportunities. We will consider share repurchase within the limits of our capital capacity and in balance with investments for growth.</p>

Q.4	<p>In relation to P11, I would like to know the image of the path toward the medium-to long-term ROE target of 9%. Will there be a steady improvement at a certain pace, or will upfront investments, like sowing seeds for the future or investing in human capital, appear first in the short-to medium-term and earnings will materialize later ?</p>
A.4	<p>Since environment changes, we do not expect ROE to improve at a linear pace. I assume that generally profits can be generated after a certain period of time when the initial investments were taken places. In the past, we have invested mainly in non-financial capital, and some of these investments are now blooming.</p> <p style="text-align: right;">(Continued to the next page)</p>

	<p>In FY2021, certain provisions were made for credit costs, and net losses on stocks were recorded due to the operation of bear funds. While the bear funds have been effective in terms of protecting capital from stock price fluctuation risk, the operations have had a negative impact from the perspective of periodic profit or loss. Although we took the option to increase the overall corporate value this time, we still believe that ROE could have been higher depending on the operation. Considering the current situation of net business profit, credit costs, and net gains on stocks, we cannot say now that is impossible to reach ROE of 9% in some cases.</p>
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Q.5	<p>I would like to understand the impact of market fluctuations since the beginning of this fiscal year. My understanding is that foreign bond risk is relatively small and the weak stock market will be a tailwind for the improvement of unrealized losses on bear funds, but a headwind for the fee related businesses, am I correct?</p>
A.5	<p>With regard to bear funds, there is no need to worry about impairment losses at the current stock price level.</p> <p>Even if the stock market becomes strong, we believe that the risk has been at a controllable level for us. Under such a market condition, we can expect an increase in gains from the sale of strategic shareholdings as well.</p> <p>One of the characteristics of our business portfolio is that a large percentage of our business is based on recurring fees based on a certain rate for assets under management (AUM) or assets under custody (AUC). Therefore, when stock prices rise, the market value of AUM and AUC in the asset management and asset administration business also rises, and fee income increases. Conversely, a decline in stock prices would result in a decrease in fee income for us.</p> <p>In addition, yen depreciation has a positive impact on our earnings.</p> <p>Risks related to foreign bonds have been limited as before.</p> <p>We consider the impact on our business due to the changes of the market environment since this March is not material but we understand that we should keep monitoring carefully any direction to which the market moves in the future.</p>

Q.6	<p>You mentioned you feel a positive momentum regarding the impact equity initiatives. Can you show us any quantified financial outcome?</p>
A.6	<p>Unfortunately we are not yet at the stage where we can disclose you the impact quantitatively at this timing. However, since the announcement of the impact equity initiatives, we have received an increasing number of inquiries from clients. For example, in areas such as solar power, wind power or infrastructure, where business has been already taking shape, we have received inquiries about initiatives in various regions. We are also receiving a fair number of consulting offers in the areas of hydrogen and smart mobility, which may take some time to develop as businesses. Although the initial investment amount may be small, we will proceed by selecting investing areas where business will expand in order to circulate investors' funds effectively in the markets.</p> <p>However, as I mentioned, please give us more time to disclose quantitative figures.</p>

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Q.7	<p>With regard to FY2022 forecast, I would like to know about some business segments.</p> <p>As for real estate, do you forecast a decrease in profits because of pipelines for FY2022 or a conservative view as FY2021 was too high?</p> <p>You assume that profit from investment partnership will decline but which segment and how much is factored in?</p> <p>As for sensitivity of foreign exchange, you mentioned it contributed to 6 billion yen profit in FY2021, but what kind of assumptions do you have for the FY2022 forecast?</p>
A.7	<p>First, fee income of Sumitomo Mitsui Trust Realty in the retail brokerage business tends to be stable. I expect no significant decrease of profit there compared to FY2021. On the other hand, the amount of corporate brokerage business by Sumitomo Mitsui Trust Bank (SuMi TRUST Bank) is large, and the results tend to increase near or at the end of the fiscal year. We can see abundant pipeline of corporate brokerage at this point and foreign investors' appetite for Japanese real estate has remained strong. Real estate could well exceed the highest profits recorded in FY2021, but at the beginning of the year, we have taken a slightly conservative stance.</p> <p>Second, the profit related to investment partnership is expected to be decreased about 20 billion yen less than usual in FY2022 forecast due to strong performance in the past two years under relatively favorable market conditions.</p> <p>Profits from investment partnership are included in Investor Services Business in the segment after reorganization of SuMi TRUST Bank.</p> <p>Regarding the effect of foreign exchange, there was a positive effect of approximately 6 billion yen in FY2021 since Yen against USD depreciated by approximately 10 yen from 103 yen to 113 yen during the term. The FY2022 forecast is set at 123 yen against dollar and yen has been depreciating so far. If this trend continues it will contribute positively to our earnings as a result.</p>

Q.8	<p>I would like to ask about the fact that repurchase of own shares announced in February has not been ever executed at this time.</p> <p>At the time of the announcement of financial results on May 12, it was explained that it was due to a technical factor that is unlikely to be a surprise to investors, but there are cases where other companies have announced reasons such as "factors within their own company". I would like to ask for an additional explanation as to what type of reason the event is and how long it will take until it is resolved.</p>
A.8	<p>As explained recently, it is the technical factor. It is not due to the situation in Russia-Ukraine or a factor that is a surprise to you. However, since it is difficult to give an analogy to the cause, I will answer from a slightly different perspective.</p> <p>Regarding the concept of capital utilization, today I explained that we would invest in growth areas that are typical of trusts and areas that lead to the solution of social issues, generate future fee income and consider the repurchase of own shares in balance with growth investments. In line with this idea, we will consider the possibility of the repurchase of own shares this fiscal year as well. We will consider it separately from the repurchase of own shares announced in February. Therefore, even if the repurchase amount planned by the end of August 2022, which is the deadline, has not been reached the target, I think you do not need to worry as you think.</p>

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Q.9	<p>Regarding total credit costs, I would like to know how you see the possibility of return of large-scale existing reserves or the possibility of new large credit costs occurrence.</p> <p>Also, I would like to ask you whether the outlook of total credit costs in FY2022 is limited to 20 billion yen, which is the forecast, or it is expected to be about 40 billion yen including special loan loss provision.</p>
A.9	<p>Whether or not there will be return of existing reserves will depend on the future situation, so we will report the issue when it appears.</p> <p>Our outlook in FY2022 is 41 billion yen, including the special loan loss provision of 21 billion yen in addition to forecast of credit cost of 20 billion yen as an ordinary amount. I do not expect a big surprise that could exceed this level at this time.</p>

Q.10	<p>With regard to investment management consulting on P70, you forecast 1.1 trillion yen as plan of sales volume total. Is there a possibility that this sales volume will increase as generation-specific consulting progress further? I am afraid that the current investment environment is getting tougher. I would like to confirm if you assume the sales plan in FY2022 is achievable or not.</p>
A.10	<p>Looking back to the beginning of the merger, 10 years ago, in the field of investment management consulting business, upfront sales fees occupied the majority and a ratio of recurring administration fees was small. After that, our sales policy was gradually changed to prioritize the balance. This strategy of stably accumulating balances has taken root and the proportion of funded investment has increased. Sales volume is important but I would like you to focus on how we build up the outstanding in the future. As a feature of funded investment, it is less likely that sales will drop significantly compared to before.</p> <p>As for the asset-formation generation, we are emphasizing initiatives including work place business and we assume that the investment horizon of senior generation would extend. In the past, it would have been common for senior to cease investments at 70 years old for instance and plan for inheritance allocation. However, they will have to keep investing until 90 or 100 years old due to longevity these days.</p> <p>In other words, Japanese individuals cannot afford to cease their investments at an early stage and place the funds into a zero expected return ordinary deposit account any more. The number of clients who want to offer consulting services for their financial plans with us is increasing, in anticipation of what they should do if they suffer from dementia or need nursing care while continuing to invest after 70 years old.</p> <p>In response to such needs, we have released a product called as 100 year passport plus to address concerns related to dementia and we are working to provide security and peace through the power of trusts.</p> <p>Since the investment period for senior generation will be extended, we believe that as more baby-boomers retire and the number of senior clients increases in the future, it will contribute positively to our outstanding of investment products.</p>

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Q.11	<p>If Yen and USD interest rate rise due to the long-term normalization of the interest rate level, I think your strategy of changing the profit structure in the medium term will not change.</p> <p>On the other hand, what kind of impact do you consider on financial capital control and business performance? And is there any room for partial revision of the strategy?</p>
A.11	<p>With regard to services to retail clients, we will continue to strive in asset management and asset administration, including inheritance services for baby-boomers. In that sense, I think the overall structure will remain unchanged.</p> <p>However, from an investment perspective, the target return will change as interest rates rise. In investor services business and retail business, there are consultations on investment from various investors. Major concerns of investors become apparent, including what kind of investment product they should select by taking into account changes in each debt situation and changes in interest rates. I believe such concerns will lead to enhance our consulting services eventually.</p>
Q.12	<p>As for the initiative to reduce strategic shareholdings on P33, you explained the progress has been going well so far. Do you have any intention to raise your target of the reduction, which is 100 billion yen in two years?</p> <p>In addition, it has been a year since you declared the zero policy. I would like to understand if you find any changes in the reactions of your clients, including the content of the dialogue.</p>
A.12	<p>It has progressed up to about 70% of the target in two years. First, we will keep negotiating concretely with our clients toward the target of 100 billion yen. I have no intention of slowing down the pace of reduction, but rather, acceleration is being discussed. We won't change our target, but I would like to enter the phase of how much we can exceed our target as soon as possible.</p> <p>When we started dialogue with our clients, I recall that only about 10% of our clients agreed to negotiate how to sell the strategic shareholdings practically. However, after a year has passed, 33% have reached sold or to be sold, 64% have continued the dialogue and only 3% clients remain dialogue on hold. I think there was a material change.</p> <p>On the other hand, there are various situations in which our clients are placed. Each client is considering about what corporate governance should be. With that in mind, they are also thinking of the positioning of strategic shareholdings. Therefore, some clients need time to consider and take measures. While we have been negotiating with our clients regarding the sale of strategic shareholdings for more than 20 years, we can say that the situation has changed over the past year which we can exchange a dialogue including the situation of our corporate clients.</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.

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