

Telephone conference on Financial Results for 1HFY2022 (November 11, 2022)

Questions and Answers

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

Q.1	<p>I would like to ask about the Common Equity Tier 1 ratio ("CET1 ratio") on a Basel III finalized basis.</p> <p>With regard to the decrease in the CET1 ratio to 9.3% at the end of September 2022, it was explained that the snapshot figures do not suggest that SuMi TRUST has returned to the capital accumulation phase, but it can be interpreted that the ratio has decreased correspondingly. In light of the external environment, I would like to ask you about your future capital policy approach and the color of the policy, and whether it is correct to assume that you will take a more conservative stance toward investment for future growth and shareholder return policy than in the past.</p>
A.1	<p>Basically, our approach to capital policy has not changed.</p> <p>Looking forward, if there are no major changes of the external environment, the CET1 ratio is expected to recover in the second half of the year due to profit accumulation, as our "earning power" has been growing. We will be able to expect continuous profit accumulation in the next fiscal year and beyond. Since the company is also reasonably prepared for various risks, there is little concern at this point that the CET1 ratio will decline significantly. Given that the CET1 ratio declined by about $\Delta 0.3$ points in the first half of the year due to the impact of yen depreciation, it is necessary to keep an eye on foreign exchange rate trends.</p> <p>In light of the fact that the CET1 ratio is at a different level from the finalized base CET1 ratio of 9.9% at the end of June 2022, we shall strive to improve the return on capital not only for the assets that we will work on, but also for existing assets.</p>

Q.2	<p>I would like to ask about the domestic loan yield.</p> <p>It increased by 3 basis points in 2Q from 1Q. What factors contributed to it and what do you assume the outlook for the future? Were there any special factors, such as an increase in product related loans?</p>
A.2	<p>Corporate loans have increased slightly compared to March 31, 2022, while the balance of product related loan outstanding has remained unchanged. There are no significant changes in the composition of the loan portfolio. Although there is a growing need for corporate loans, they are mainly short-term, and there has not been a significant change yet in actual loan spreads. The increase is caused by technical factors rather than major trend changes.</p> <p>Spreads on foreign currency loans have improved. Foreign currency product related loans, which are with high profitability, have improved the spread by about 3 basis points since the end of 1Q and the balance increased by ¥340 billion excluding the effect of foreign currency exchange rate fluctuations.</p>

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Q.3	<p>Prudent U.S. interest rate risk management is a positive evaluation point for SuMi TRUST compared to other Japanese banks.</p> <p>I assume that the derivatives (mark-to-market accounting) in the table on the upper left of page 25 of the FY22 interim financial results summary refers to positions where changes in market value in derivatives have a direct impact on the PL. Is it correct to understand that as of the end of September 2022, SuMi TRUST held a long position in derivatives?</p> <p>In that case, the increase in interest rates at the end of September 2022 would result in a valuation loss on the long position in derivatives (mark-to-market accounting), but the bank posted a positive gain/loss on derivative financial instruments in the first half of FY22. I would like to receive a supplemental explanation of these relationships.</p>
A.3	<p>As of the end of September 2022, we held a long position in derivatives related to mortgage bonds, but subsequently reduced this position and shifted it to hedging US interest rates from October 2022.</p> <p>In the first half of FY22, Sumitomo Mitsui Trust Bank (non-consolidated) recorded 28.0 billion yen in gains on derivative financial instruments, the majority of which was the 23.1 billion yen recorded in 1Q, with an additional 5.0 billion yen or so in 2Q. There was no significant movement in derivatives in 2Q in a way that affected earnings.</p> <p>The table on the upper left of page 25 shows snapshots at the end of September and October 2022, but please understand that derivatives are basically on the hedging side, and the snapshot at the end of September merely showed a small exposure on the long side.</p>

Q.4	<p>I would like to ask about the real estate brokerage business.</p> <p>I would like to know the status of the current pipelines and market outlook for both commercial and retail real estate.</p>
A.4	<p>First, let me explain about commercial real estate brokerage business.</p> <p>Investors' appetites remained active, and we were able to close relatively large deals, continuing on from 1Q. However, some foreign investors have become slightly cautious due to higher borrowing costs.</p> <p>On the supply side, companies continue to have strong needs to review their property holdings, and there is a solid pipeline for the second half of the year.</p> <p>Next, regarding real estate brokerage business for individuals. We remain vigilant about the rise in condominium prices, but we confirm the current market situation still progresses steady. In terms of inbound investment transactions, there is no contribution at this time because travel restrictions were lifted in September, at the end of the first half of the year, but we expect to see positive results in the future.</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.

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