

IR Day (February 21, 2023) Questions and Answers

1. Real estate business

(Respondent: Atsushi Kaibara, Executive Officer of SuMi TRUST Holdings)

Q.1	How do you think the real estate business will be affected if yen interest rates rise in the future?
A.1	<p>As a major direction, we assume that Japan will also enter a phase of rising interest rates in the future. On the other hand, it is our understanding that the market is of the strong opinion that Japan will not experience a significant rise in interest rates in a short period of time like in the U.S. and Europe.</p> <p>In the Japanese real estate investment market, there is still a certain amount of buffer between investment yields and funding interest rates, and a 50-60 basis point rise in interest rates can be absorbed by this buffer, so the impact on the real estate market is not expected to be significant. Therefore, investment funds from foreign countries are likely to continue to flow into Japanese real estate. While it is true that some foreign investors have become more cautious about investing in Japan due to the rise in foreign interest rates last year, this has not led to a decline in Japanese real estate prices. Therefore, we believe that the Japanese real estate market is likely to remain robust for the foreseeable future.</p>

Q.2	The earnings level indicated as a KPI is expected to continue to exceed the highest level in the future. What areas do you see as growth drivers?
A.2	<p>The future earnings level shows our goal for FY2030 and the roadmap to achieve it. Last fiscal year, both Sumitomo Mitsui Trust Bank, Limited. (SuMi TRUST Bank) and Sumitomo Mitsui Trust Realty Co., Ltd. (SuMi TRUST Realty) achieved their highest profits since the management integration, and they are on track to exceed that level this fiscal year as well, and are aiming to achieve further record profits in fiscal 2030.</p> <p>First, we believe that our strength lies in our broad knowledge and personal connections with real estate companies, real estate funds, trading companies, railway companies and other clients who are strongly characterized as investors, and we consider this to be a driver of future growth. In this area, we intend to also utilize equity investments of several tens of billions of yen to provide large-scale financing arrangement functions, which will lead to the expansion of various business opportunities, including real estate brokerage. Such efforts have already begun, and examples are presented on page 13 of the document.</p> <p>Second, in dealing with clients, mainly ordinary business corporations, our strength lies in our ability to have points of contact with them at various points in the real estate value chain. Therefore, from the perspective of strengthening our points of contact with such clients, we have set balance of assets involved in consultation as a KPI. The timing of transactions for such clients is not necessarily linked to trends in the real estate market, and in many cases, the timing is determined by the business conditions and management decisions of each company. Therefore, it is extremely important for us to increase our regular contacts so that we can be involved in transactions at the right time, and we believe that this area will continue to be a driver of growth.</p> <p>(Continued to the next page)</p>

	<p>In addition to this, the global real estate transaction field also has more potential than before. In the area of business for individuals in Japan, SuMi TRUST Group is uniquely positioned to provide a variety of advice on the total individual assets of ¥3,000 trillion, including ¥2,000 trillion in financial assets held by individuals and ¥1,000 trillion in real estate. As more individual assets are expected to move in the future due to inheritance and other factors, we expect to have even more opportunities to become involved, and we believe that SuMi TRUST Realty will be able to drive growth in this area.</p>
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Q.3	<p>On the KPI page, you indicate that the pace of future revenue growth will be about 3% per year. Please give us a breakdown of the growth portion of the overall market and the growth portion of SuMi TRUST Group's own efforts.</p>
A.3	<p>First, the core of transactions in the real estate business is real estate brokerage. For example, of the ¥40 billion in Substantial gross business profit projected for SuMi TRUST Bank for the current fiscal year, approximately 80% is from flow income from real estate brokerage. In other words, while this is not a business that can expect constant earnings every fiscal year like a recurring-revenue business, we would like you to understand that we are aiming for annual earnings growth under the changing real estate market conditions. In addition, in order to increase the ratio of recurring income, we intend to increase equity investments and businesses that can be involved in stable transactions based on the establishment of long-term relationships with business corporations.</p> <p>Currently, SuMi TRUST Group has a 10% share of the market (26 major distribution companies) on a revenue basis, but in addition to further expanding this share, we intend to increase our involvement in the real estate business and expand our revenue by promoting a virtuous circulation of funds, assets and capital through our own efforts. Although it is difficult to give a breakdown of the growth portion of the overall market and our own growth portion, the 3% annual growth should be taken as an ambitious figure that anticipates expansion in both areas.</p>

Q.4	<p>I would like to be introduced to some real-life examples and good practices in business alliance with UBS.</p>
A.4	<p>The business alliance with UBS has only just begun, and real estate-related fees are only a few hundred million yen, so the impact of the alliance on the overall PL is still small. However, the collaboration has brought us insights that we could not have gained when we were doing business on our own.</p> <p>For example, there are cases where wealthy clients purchase properties worth approximately ¥1 billion with cash on hand, and if the properties can be offered in a timely manner, they can be closed in a short period of time. This is an insight that we could not have gained from our previous dealings with trust bank clients alone. We would like to strengthen our relationships with clients and further enhance our ability to provide properties in a timely manner in response to their property acquisition needs. As a specific initiative, we have begun to consider creating a vehicle that can be selected in a timely manner by clients in need by showcasing income-producing real estate in a fund that utilizes equity.</p>

Q.5	I would like to know what percentage of the assets in the ESG field will account for the increase in the balance of assets involved in consultation for FY2030, which is indicated as a KPI.
A.5	<p>The target level of the balance of assets involved in consultation is a figure that has been accumulated from various angles, and we intend to expand the future increase mainly through facility management, development and construction consulting and other initiatives. In addition, although not included in this KPI, consulting-related assets for individuals total approximately ¥400 billion, and we intend to increase this figure in the future as well.</p> <p>We have not calculated precise figures for assets involved in consultation in the ESG field. However, it can be said that all of our future real estate development projects will be in the ESG field, as we expect to focus on responding to our clients' ESG-related needs. As my personal impression, I believe that it will not be possible to proceed with new buildings to be constructed in the future without addressing environmental issues.</p>

Q.6	I feel that "staying close to clients' needs longer," which was explained as a growth strategy for corporate clients, will lead to earlier timing of consultations and lead time to closing deals, making it easier to plan for future earnings. Compared to the past, how will the time line from consultation to deal closing change?
A.6	<p>On page 10 of the document, we introduced a case study of a client who sold its existing factory and built a new green factory in order to achieve carbon neutrality. We believe that such moves toward the realization of carbon neutrality will accelerate throughout society.</p> <p>We believe there will be an increasing trend for clients to consider real estate development and management from an ESG perspective. In a situation where corporations are under pressure to respond to ESG, we believe that the time horizon for closing deals will become shorter. Even within such a time frame, we intend to remain involved in transactions by always staying close to the various needs of our clients, including ESG issues.</p>

2. Corporate Governance

(Respondent: Isao Matsushita, External Director of SuMi TRUST Holdings)

Q.1	With regard to the policy that the Group shall not hold any strategic shareholdings as a conventional stable shareholder, what is your assessment of the current efforts and the status of discussions at the Board of Directors regarding the pace of future reductions?
A.1	<p>With regard to reduction of strategic shareholding, discussions are underway to share awareness of the issues, including on the executive side.</p> <p>During the formulation of the current policy, outside directors provided opinions based on their various backgrounds and experiences, and there was discussion on the need to proceed with caution while deepening engagement with the corporate clients that issue strategic shareholdings. Based on these opinions, the Board of Directors held a thorough discussion, leading to the announcement of the policy of holding no strategic shares.</p> <p style="text-align: right;">(Continued to the next page)</p>

	Since the announcement of the policy, the executive side has appropriately reported to the Board of Directors on the progress of the initiatives, including various opinions from investors and other outside parties, and the status of engagement with corporations whose shares are held by SuMi TRUST Bank. We can confirm that SuMi TRUST Group as a whole is making steady progress in reducing its holdings in line with this policy.
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Q.2	I would like to ask about the appropriateness of the setting of deliberation themes for the Board of Directors' meetings. SuMi Trust Group's performance and stock price have remained flat over the past five years, and I would like to ask whether the themes for deliberation at the Board of Directors' meetings have been appropriate. Or, do you think that the themes are appropriate and that the results of the deliberations will improve in the future?
A.2	The Board of Directors sets themes for deliberation based on the ideal form of the Board of Directors. In the ongoing discussion on the next medium-term management plan, the Board of Directors recognizes that improving the current PBR of around 0.6x to 1.0x or more is an important issue, and is discussing ways to resolve this issue. We will also discuss items to be incorporated as themes for the Board of Directors' meetings in the next fiscal year and beyond, taking into consideration the recognition of these issues and the results of the Evaluation of Board of Directors. We will continue to set appropriate themes in light of the feedback we have received.

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