

Investor Meeting on Financial Results for FY2022 (May 19, 2023)

Questions and Answers

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

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| Q.1 | Regarding capital management in the new Medium-Term Management Plan. If the strategy is to focus on Assets Under Fiduciary (“AUF”), which is the newly established KPI, and not significantly increase both credit risk and stock price fluctuation risk from the balance sheet, does this mean there is less need for capital accumulation? What is your outlook for the next 5 to 10 years? |
| A.1 | <p>The balance sheet will remain flat and not increase significantly, and capital efficiency will be enhanced through asset replacement. In AUF expansion, the amount needed for capital accumulation is less compared to balance sheet expansion, because Assets Under Management (“AUM”) and Assets Under Custody (“AUC”) will increase at a greater rate. However, even if the balance sheet is not used, it is essential to invest in growth to expand AUF and accumulate capital to ensure that there is sufficient capacity to invest for this purpose.</p> <p>It has been ten years since the integration, and we have more than doubled our AUM and AUC while keeping our balance sheet only slightly larger. We have accumulated the necessary capital in accordance with Basel III regulations and are currently in the capital utilization phase. We will continue our efforts to expand AUF through growth investments.</p> |

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| Q.2 | In the process of formulating the new Medium-Term Management Plan, please tell us about topics that were controversial or measures that faced significant opposition within the company. |
| A.2 | <p>Two years ago, when I assumed the position of president, Covid-19 was spreading and the future was uncertain. However, by the time the 1H FY2021 financial results were released, I felt that we were on the verge of a recovery to a level that would allow us to achieve the net income that we had planned at the time.</p> <p>Internal discussions on the new Medium-Term Management Plan began at that time. Initially, discussions were held with each business regarding long-term strategies for 2030, 2050, and so on. On the business side, there were various discussions and deliberations on how to nurture businesses that will lead to future earnings, with the opinion that seeds need to be planted from a medium- to long-term perspective in order to enhance business performance going forward.</p> <p>The topic that was most discussed was that in order to achieve a PBR of 1.0x or above, ROE should not end at 8% throughout the term of the new Medium-Term Management Plan, but should aim for 8%, 9%, and 10%. In addition, we had to come up with a strategy to achieve this ROE growth regardless of interest rate and stock price conditions. Since organic investment in human capital and IT is essential to raise ROE, we struggled to formulate a plan on how to recover profits in a cost-intensive environment, but we were finally able to summarize it in the new Medium-Term Management Plan.</p> |

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| Q.3 | <p>In the banking industry as a whole, expenses are increasing due to higher personnel expenses resulting from increased investment in human capital and higher non-personnel expenses resulting from inflation and a weaker yen, as well as other cost-increasing inflationary factors. Compared to corporates in other industries, the banking industry is perceived as an industry where it is difficult to pass on prices, and there is concern that the overhead ratio will continue to deteriorate under inflationary conditions. What are your thoughts on controlling the overhead ratio?</p> |
| A.3 | <p>You are right in pointing out that personnel and non-personnel expenses have increased due to inflation. Like other corporates, we are no different in that we need to raise labor productivity through price pass-through and investments in IT and digital. With regard to investments in IT and digital, we are investing a larger amount than we did in system integration at the time of our management integration. Since these investments will contribute to future productivity improvements, we recognize the importance of ensuring that the results of these investments will be realized in the future.</p> <p>With respect to price pass-through, efforts to improve loan margin will continue in the banking business. In addition, in the asset management and asset administration business fields, it is important to focus on market expansion as well as to raising fee rates. From this perspective, especially to expand the scale of capital market in Japan, we intend to contribute to the improvement of PBR not only for us but also for all domestic corporates.</p> <p>As an example, we conduct various surveys for corporate clients. The main purpose is to first understand the gap between the current position of corporate clients and the activities and governance status expected by investors. After the survey, we provide consulting and support activities to help close the gaps. This kind of initiative requires investment in human capital, and we hope to enhance labor productivity and grow fee income by spending personnel expenses in this area.</p> |
| Q.4 | <p>Even before the Tokyo Stock Exchange issued its request for improvement to corporates with low PBR, SuMi TRUST had set a target of aiming for a PBR of 1.0x or above, which is actually the highest among Japanese banks. On the other hand, trying to maintain a progressive dividend and a constant payout ratio would probably increase the need for more stable profit growth in order to avoid dividend cuts due to profit fluctuations. As a result, it may be difficult to show rapid profit growth and improve ROE and PER. Please tell us how you plan to improve PBR while maintaining a progressive dividend and the payout ratio.</p> |
| A.4 | <p>AUF has been newly set this time as a KPI in the new Medium-Term Management Plan. We will increase the volume of AUM and AUC in the future, while keeping balance sheet volume under control and improving its quality. We would like you to think that this is the direction in which we are moving, toward a structure that makes it easier to generate more stable earnings.</p> <p>As a result, we expect the ratio of fee income, which is less volatile due to market factors, to continue to rise. As mentioned earlier, contributing to the expansion of capital markets through the provision of surveys for corporate clients is another means of increasing fee revenues. Through these efforts, we hope to improve PBR.</p> |

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| Q.5 | Regarding capital policy on page 33 of “Investor Meeting on Financial Results for FY2022”. I would like to ask about the outlook for capital allocation, including share repurchases, organic and inorganic investments during the Medium-Term Management Plan period. |
| A.5 | <p>Organic investment is important for our sustainable growth, and we will capture future fruits through investments in human capital and IT/digital. Although we do not know what inorganic opportunities are available, we believe it is important to grow organically first for Sumitomo Mitsui Trust Asset Management and Nikko Asset Management, as investing inorganically can lead to insufficient fruits if controls do not work.</p> <p>In the asset management business, the volume of traditional assets such as listed stocks and bonds, is large, but new areas that can benefit investors, such as private assets, are being considered for both organic investments and inorganic investments, such as forming alliances with partners.</p> <p>There is no change in capital policy with a target of a CET1 ratio (on a Basel III finalization basis) of "stably maintain 10% or above." Even at the current level of 9.5%, we believe this is still in the range of capital utilization. Regarding share repurchases, we repurchased 20 billion yen in the last fiscal year as well, and will consider future repurchases based on the CET1 ratio and the timing of growth investments. We believe that share repurchases are an effective means of improving capital efficiency at times such as when many investments take a long time to generate profits.</p> |

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| Q.6 | Regarding the overseas real estate NRLs on page 46 of the “Investor Meeting on Financial Results for FY2022”, what is the current situation? |
| A.6 | In terms of region, our loans are mainly in North America and Europe, and we don’t make any finance in areas where it is difficult for us to monitor credit or other risks ordinarily after lending. In terms of usage of properties, the majority of projects are for rental residential properties. Most of office projects are loans to properties involving Japanese corporates, and the portfolio is easy to monitor based on the knowledge accumulated to date and the long-term relationships of trust with corporate clients. |

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| Q.7 | In terms of the thinking about lowering capital cost, where are the biggest gaps between the market and SuMi TRUST? Also, how long is it likely to take to improve capital cost? |
| A.7 | <p>We recognize that there is a gap because the market believes the capital cost is higher than our perceived capital cost.</p> <p>The efforts to lower the capital cost, as described on page 38 of the “Investor Meeting on Financial Results for FY2022”, have been discussed by the Board of Directors in the development of the Medium-Term Management Plan.</p> <p>As the Board of Directors monitors management, external directors ask questions to the executive side regarding the capital cost, and the executive side reports back to the Board of Directors on the opinions received through dialogue with investors.</p> <p>Our business foundation, based on long-term relationships of trust with our clients, supports a stable profit structure and has the effect of lowering the capital cost in addition to the existing business foundation, the new Medium-Term Management plan will also promote efforts to build long-term relationships of trust with new clients, such as the asset formation generation and start-up companies.</p> <p style="text-align: right;">(Continued to the next page)</p> |

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| | <p>(From Mr. Yamashiro)</p> <p>The regression analysis with PBR and ROE for Japanese banks generally plots on the same regression line. We want to be valued by investors at a higher PER when compared to other banks.</p> <p>Specifically, we differ from competitors in that we have a high tolerance for risk even in an environment of heightened uncertainty, such as the current situation, and in that we aim for profit growth through AUF expansion. We believe that in order to achieve a PBR of 1x, ROE improvement is a must, but in order to shift upward away from the regression line, it is necessary to demonstrate these strengths and our characteristics together with our track record of ROE improvement.</p> |
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| Q.8 | <p>Regarding private assets, in light of the fact that the ratio of private assets included in investors' investment portfolios is rising in the U.S., please tell us how you see the current situation and the future in Japan. Also, I would like to figure out the feasibility of the plan that you can expand Private Asset AUM.</p> |
| A.8 | <p>Expansion of the private asset market in Japan is just beginning. First of all, it is important to get investors to fully understand private assets.</p> <p>We believe that the future development of a green society in Japan will be an opportunity for the private asset market. In order for Japan to promote carbon neutrality, it is necessary to attract funds by providing domestic and foreign investors with investment opportunities with sufficient returns. We are also planning to make a major presentation on private assets at a seminar on corporate pension plans to be held at Sumitomo Mitsui Trust Bank this month.</p> <p>We will gradually increase the volume of transactions related to private assets while conducting activities to help investors understand the nature of the products, but we expect that the balance will eventually expand dramatically.</p> |

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| Q.9 | <p>I anticipate seeing quarterly disclosures on the increase of fee revenue related to AUM and AUC, as well as the contribution of AUF to revenue, with regard to the disclosure on the progress of the Medium- Term Management Plan. Do you believe that stable profit growth, unaffected by market conditions such as interest rates and stock prices, will also result in a lower cost of capital? Although BNY Mellon and State Street's AUCs have doubled, their fees have declined. I'm worried that something similar may occur at SuMi TRUST in the future.</p> |
| A.9 | <p>We will improve our future disclosures so that we can engage in meaningful dialogue with investors, while keeping in mind the parity with the indicators we manage internally. The Board of Directors will also deliberate on what kind of disclosure is appropriate. Since the new Medium- Term Management Plan has just started, explanations and disclosures will be reviewed from time to time based on investors' expectations and the ease of understanding. Margins on traditional assets such as stocks and bonds have been lower, and we anticipate this trend to continue. We consider private assets, with high return expectations, as areas where margins are thicker and have a significant impact on earnings growth.</p> |

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| Q.10 | On page 14 of the “Investor Meeting on Financial Results for FY2022”, interest rate (10YJGB yield) for FY25 is 0.7% as a market environment assumption. I would like to know the assumed impact on earnings. |
| A.10 | Although it is difficult to predict future interest rates, we have factored the impact into our forecast based on the assumptions. We estimate that if interest rates were to rise in every durations by around 50 basis points in a parallel manner, Net business profit before credit costs would increase by about 40 billion yen per year and ROE would rise by 1%. |

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| Q.11 | I would like to know your evaluation of M&A implemented in the previous Medium- Term Management Plan compared to the scale of investment you originally planned. Also, I would like to know what you currently feel as your business with Apollo and UBS progresses. |
| A.11 | Our corporate growth is basically achieved by organic investments, and inorganic investments are positioned to complement organic growth or to be implemented when opportunities arise. In the previous Medium- Term Management Plan, we launched a joint venture with UBS. Since this is a carve-out of a business that UBS had been developing in Japan prior to our investment, we have been able to generate a return as soon as we invested. In addition, UBS’s client base, concentrated in the Ultra High Net Worth segment, includes many clients that we have not been able to fully develop because our business with them was limited to real estate. Therefore, we believe we can further expand our business in this area by collaborating with UBS. With regard to the investment in the alternative asset portfolio managed by the Apollo group, the investment return itself is not the main objective. We believe that the major achievement was the establishment of a relationship with Apollo to develop investment products in Japan together for the future expansion of our AUM and AUC. This is just one example, but we believe that in many cases, our investments will generate a positive effect in the form of expanded AUF in the organic business. |

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| Q.12 | I would like to know in what areas you are considering investments in the future. |
| A.12 | We will consider investing in areas where there is a sufficient return for investors. Specifically, if there were good opportunities on M&A or partnerships in private asset business area, we would consider them. In the area of asset management, we will also consider partnering with a new investment manager. We would also like to invest in initiatives that contribute to enhancing the corporate value of Japanese companies, as this will lead to the expansion of our AUF. |

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| Q.13 | The shares of SBI Sumishin Net Bank, Ltd. was listed and you sold a portion of your holdings. Will you continue capital recycling in the future like that? |
| A.13 | In the process of formulating the new Medium- Term Management Plan, the Board of Directors has deepened discussions focusing on capital efficiency. Capital recycling is a major agenda in the discussion of improving capital efficiency of our balance sheet. We will continue to deepen the discussion and explain to investors accordingly. |

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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