

Investor Meeting on Financial Results for 1HFY2023 (November 17, 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 | <p>Although the forecast for Net business profit before credit costs has been revised upward for fiscal year 2023, it is not clear from the first half results for each segment which businesses are performing well. Please explain how the president evaluates the profitability of the client-related segment.</p> |
| A.1 | <p>Gross business profit in the first half increased approximately 20billion yen YoY. Overall, I feel that we are moving forward.</p> <p>Since substantial G&A expenses also increased by approximately 20billion yen YoY, net business profit before credit cost was roughly the same level as the previous fiscal year. However, the increase in expenses was due to the investments in human capital and IT that we have been making for two years, when I became president, and both of these investments will bear fruit in the future.</p> <p>We are moving forward as a whole, but the level of progress differs by business segment. For example, in the real estate brokerage business for corporates handled by SuMi Trust Bank, the number of contracts with large properties declined from the previous fiscal year, resulting in a decrease in profit. However, we do not see a deterioration of the environment in the real estate market as a whole. Meanwhile, the real estate brokerage business for individuals handled by SuMi Trust Realty has been performed well.</p> <p>In addition, Net business profit of the investor services business declined, due in part to higher expenses from advance investments. The timing that markets move is also when investors rebalance their portfolios. Therefore, as a result of rebalancing, products that have risen in price tend to be sold and those that have not fallen in price tend to be invested in. In some respects, the products we offer were negatively impacted by the first half earnings in this way. However, we have not been struggling so much in terms of sales activities, and I would like you to look at the medium- to long-term trend rather than short-term ups and downs.</p> |
| Q.2 | <p>With the steady increase in AUF, progress in reducing unrealized losses from bear funds and an increase in capital, you appear to have all the ingredients to raise earnings. However, the lack of shareholder return actions makes it look inferior to your peers.</p> <p>In light of these points, I would like to ask about the president's assessment and thoughts on the upside potential of the performance for the next fiscal year and the status and use of capital, rather than when you will repurchase your own shares.</p> |
| A.2 | <p>We believe that we will be able to continue to accumulate profits steadily, but the outlook is continuously uncertain and there may be headwinds against us, hence we believe that a certain level of preparedness is necessary. On the other hand, we recognize that, since Japan is now in the phase of exiting deflation, and since we declared the policy of reducing strategic shareholdings to zero and reduced and changed our bear fund positions, balance sheet risks are now easier to manage in both the rising and falling stock price phases, making it easier for us to consider capital utilization.</p> <p>Capital will be invested in human capital and IT for organic growth. In the area of asset management business, SuMi Trust Bank, SuMi Trust Asset Management, and Nikko Asset Management will promote</p> |

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| | <p>investments in areas that are beneficial to investors in line with their respective strategies, as described on page 19. We will not only make organic investments, but also affiliate expansion in asset management business, such as the investment in Osmosis, which I explained earlier. In addition, from a distribution perspective, there are some overseas regions where we would like to have sales channels, so it depends on the transaction, but we would consider investing in such areas if the opportunity arises.</p> <p>Other initiatives include ones to improve the profitability of the credit portfolio (page 40) or preparation for the introduction of trust products with principal compensation as part of the democratization of private assets (page 25). With regard to the latter, we plan to introduce a product with principal compensation initially, but in the future, we are planning to offer a trust product with performance-based dividend. As investors become more willing to take appropriate risks, we will be more inclined to consider capital utilization in this area. While balancing such growth investments, we will also consider share repurchases.</p> |
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| Q.3 | <p>Could you share your current perspective on whether the future forecast for net gains on stocks will be revised upward due to the reduction of bear funds with low B/E this time, and whether there is potential for an upward revision of Net income target for the final fiscal year of the Medium-Term Management Plan?</p> |
| A.3 | <p>Regarding net gains on stocks, considering strategic shareholdings and bear funds after reducing and changing the position, we are in a position where net gains are more easily generated than before. The impact on profits and losses can vary greatly depending on which stocks we can agree to sell, and while it depends on the market, we want to strive to achieve the profit targets we set in the Medium-Term Management Plan ahead of schedule. In formulating the Medium-Term Management Plan, we have been discussing while envisioning 2030 and beyond, and we have been taking measures and making efforts to achieve an ROE 10% or above in fiscal year 2030. On the other hand, since interest rates and stock prices have risen since the time of formulating the plan, we are making efforts in each group company and each business segment to achieve a level of Net business profit before credit costs that exceeds the plan.</p> |

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| Q.4 | <p>Since trust banks have a large proportion of term deposits, I would like to know the deposit beta for yen deposits as shown on page 39. In addition, I would also like to know the background of the assumed amount of 1 trillion yen in the estimation of the shift from BOJ deposits to securities investment.</p> |
| A.4 | <p>(Mr. Takakura) We have been discussing interest rate sensitivity internally, but please understand that it is difficult to comment because interest rates have not been on the rise for a long time and it is difficult to predict client trends.</p> <p>We are not a financial institution where clients place money in current accounts for the purpose of daily use; rather, they tend to place long-term term deposits with us. Therefore, we recognize that our deposit beta is relatively high compared to other domestic banks. However, our deposits, including funds in current accounts, have a large amount of funds on standby for investment, and the results will vary depending on how these funds are directed for investment. We are focusing our efforts on getting clients to switch to our investment products, including their deposits at other banks.</p> <p>(Mr. Yamashiro) I would like to explain a technical point as a supplement. In estimating the impact of the end of negative interest, we used a comparison of the forward yield curve for fiscal year 2024 as of October 2023 and as of December 2022, when the market did not yet have expectations of a change in policy rates.</p> |

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| | <p>The comparison of the two shows +5bp in O/N, and we assumed that the end of negative interest has been factored in. No change in the outstanding balance is assumed. In the estimation, the deposit beta is conservatively calculated at about 60%. The high level is due to the high percentage of term deposits. The high percentage of term deposits with longer terms of 2 or 5 years is a unique feature of ours. The beta of term deposits is higher than that of savings deposits, but on the other hand, it also means that the interest rate is fixed for a long period of time. Therefore, in an environment where interest rates continue to rise for some time, this can work positively on our earnings.</p> <p>The 1 trillion yen amount shown as an assumption in the lower right corner of page 39 is only the amount that we have set in presenting the sensitivities, and is not a figure with the intention of actually shifting this amount.</p> <p>(Mr. Takakura) Let me make one more point about interest rate hikes. In the asset management and asset administration business, the market value may decline in the early stages of a rising interest rate phase, but on the other hand, the market value is likely to rise over the long term as more investors set their expected returns high. Thus, please understand that the structure of these business areas is such that there is a certain time lag that has a positive impact on earnings.</p> |
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| Q.5 | <p>On page 35, it is indicated that growth investment as a percentage of total IT investment will increase to 10% in fiscal year 2025. I would like to know about the current internal discussions on the sufficiency of growth investments. Are there areas where you would like to accumulate more forward-looking growth investments if you can afford to do so when the level of Net business profit before credit costs increases in the future?</p> |
| A.5 | <p>We are investing in growth in both human capital as well as IT. There are various measures to be implemented in the future, and we would like to continue to engage.</p> <p>Related to the Asset management nation theme, we would also like to invest in the infrastructure of the asset management business to make it easier for fund managers and investors to use the system.</p> <p>Regarding human capital investment, it is clear that there is a shortage of human resources only in the fields we have cultivated so far. With this in mind, we will also make solid investments in new areas, such as digital talent through Trust Base, which was established in April 2021, and the employees with PhDs in the Technology Based Finance Team.</p> |

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| Q.6 | <p>As the concept of achieving Asset management nation is projected as a tailwind in the future, which businesses will contribute to your earnings and on what timeline? Especially, which businesses can be anticipated to contribute to earnings relatively early?</p> |
| A.6 | <p>We would like to expand our businesses in the field of real assets and private assets. We anticipate that the growth of passive investment of assets under management (“AUM”) will lead to an increase in assets under fiduciary (“AUF”), which is the KPI for our group. However, the contribution to earnings from the AUF remains limited.</p> <p>We have been providing private assets and alternative assets to our clients. Even when we are not the direct originator, this field provides a thick margin for both investors and us. A notable new initiative is the launch of an infrastructure fund. In the future, if we engage in more initiatives to originate by ourselves, we will be able to achieve even thicker margins.</p> |

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| | <p>Regarding impact equity investments, many of them become profitable as time passes, and by continuing to increase the balance in the future, we expect a significant increase in earnings. However, we also see some opportunities for early profit realization.</p> <p>In terms of the balance sheet, we are progressing the shift from low-profit corporate credit to high-profit product-related credit, and we will continue to accelerate this shift in the future.</p> |
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| Q.7 | Regarding the investment policy of foreign bonds, the balance at the end of September 2023 shows an increase mainly in U.S. Treasuries. Have you finished accumulating foreign bonds or will you continue to do so? |
| A.7 | <p>With regard to investments in foreign bonds, the global markets business is mainly engaging in various strategies to generate income.</p> <p>The increase in the balance of foreign bonds in the first half was due to the rise in U.S. interest rates, which presented an opportunity compared to the past when interest rates were low. Going forward, we do not intend to increase or decrease the balance in one direction but will respond flexibly depending on the market environment.</p> |

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| Q.8 | Since you announced the revision of earnings forecasts on October 30, has there been any change in the forecast for gains from the sale of strategic shareholdings in fiscal year 2023? After October 30, a release has been issued by one issuer regarding the sale of strategic shareholdings. I would like to ask whether the sale of strategic shareholdings, including recent share price fluctuations, is progressing as planned. |
| A.8 | <p>Since this fiscal year, we have been working to accelerate discussions with our clients regarding the sale of strategic shareholdings. As a result, in the first half of fiscal year 2023, sales progressed at twice the pace of the previous fiscal year at cost basis. In addition, the amount that has already been almost committed to be sold during fiscal year 2023 exceeds 50 billion yen, at cost basis as well.</p> <p>However, please understand that even if the share is scheduled to be sold, if we have insider information related to the client, we may not be able to sell shares. Therefore, at this time, it is difficult to say exactly how much we expect to sell in fiscal year 2023. However, as the end of the fiscal year approaches, more precise monetary projections will become possible.</p> <p>It is true that the corporate governance code has become more widely accepted, and an increasing number of clients have come to understand the sale of strategic shareholdings. In fact, compared to the end of March 2021, the number of companies with strategic shareholdings has been reduced by approximately 30%, and we feel that the environment has become more conducive to gaining their understanding.</p> |

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| Q.9 | Considering the rising domestic interest rate environment, some companies have significantly pivoted towards increasing their profits by restructuring their yen-denominated portfolios. Are you considering revising your growth strategies in response to the termination of the zero-interest rate environment? |
| A.9 | In light of changes in the domestic interest rate environment, investors are beginning to consider and implement changes in their investment policies and are reviewing their portfolios based on the nature of the funds each investor holds. We have consistently strived to consider together with each of our clients in determining the suitable portfolio and supplying the appropriate products, and there will be no significant changes to our strategy in the future. However, we believe it is crucial to anticipate and prepare for the products that our clients will increasingly demand at each stage, as these preferences will evolve over time. |

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| Q.10 | Bear funds is a factor in fluctuating financial results as well as hedging costs. On the other hand, the expansion of unrealized gains on strategic shareholdings has created an environment in which unrealized gains can be maintained even if the stock market falls sharply. Considering these points, the need to hedge strategic shareholdings seems to have diminished. Then I would like to know if there is any internal discussion on this point. |
| A.10 | In light of how we are accelerating our efforts to reduce strategic shareholdings, we reviewed our hedging policy. As a result, the decision was made to lower the hedge ratio while reducing and restructuring existing bear funds positions. If strategic shareholdings are reduced in the future, the hedge ratio will continue to decline, eventually moving toward zero. |

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| Q.11 | Considering the current environment, can you further raise the target for reducing strategic shareholdings, which is listed on page 37? In addition, in the future, can you add new goals, such as a schedule to reduce the ratio to net assets to less than 20%, in addition to the cost basis reduction goal? |
| A.11 | At present, the target is to reduce strategic shareholdings by 150 billion yen at cost basis over the three-year period of the medium-term management plan. We are accelerating our activities to achieve that goal. We are not considering raising the reduction target level at this time but are working to exceed it and hope to achieve the target amount as soon as possible. However, if the reduction of strategic shareholdings progresses, there is a possibility to consider changing the target of reduction amount. As for new targets such as net asset ratio, given internal reduction activities, we believe it is important and realistic at this time to discuss with each client based on targets of cost basis balance or investee number of strategic shareholdings. If further reductions are made in the future, we would like to consider setting new targets, such as a ratio to net assets. |

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| Q.12 | I would like to inquire about management conscious of capital cost and stock price, as presented on page 60. Based on the earnings forecast, taking PBR and ROE into account, you appear to be significantly undervalued within the banking sector. Could you explain the reasons for the high capital cost, and what strategies are under consideration? |
| A.12 | We understand that there are various calculation methods on capital cost. The capital cost calculated internally is thought to be relatively close to the lower end of the range of capital costs estimated in the market. If there is a discrepancy with the market's view, we would like to continue the dialogue with our investors and improve if there are factors that could lower the capital cost. |

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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