

## IR Day (July 8, 2024) Questions and Answers

### 1. Initiatives of Global Markets Business

(Presenter: Shinichi Tao, Executive Officer of SuMi TRUST Holdings, Inc.)

Q.1	I believe that profit attributable to deployment of surplus foreign currency funds seems to have a significant impact on your financial results compared to other peers. Could you explain the background, considering the structure of your foreign currency balance sheet?
A.1	<p>Profit attributable to deployment of surplus foreign currency funds refers to the management of excess funds (liquidity buffer) after securing the necessary funds for liquidity management.</p> <p>Historically, we deposited surplus foreign currency funds with overseas central banks. However, post-Lehman's Crisis, the FX swap market changed, and the hedging cost(*) of USD against JPY increased. Consequently, we converted the USD liquidity buffer to JPY and deposited it with the BOJ, which provided benefits. As hedging costs continued to rise, we have been managing part of the surplus foreign currency funds through FX swaps.</p> <p>Our liquidity management is globally coordinated, primarily from Tokyo, allowing efficient transactions across currencies and locations, which might be a contributing factor.</p> <p>(*) A premium required for USD funding transaction in exchanging JPY to USD for a certain period of time.</p>

Q.2	Your hedge ratio against the stock price fluctuation risk of strategic shareholdings is relatively higher than other peers. Could you explain the background?
A.2	<p>Due to the historical characteristics of our business model as a trust group, we had a relatively large balance of strategic shareholdings compared to our capital. To mitigate the negative impact on capital prudential during stock price declines, we have utilized bear funds for hedging at a necessary scale. Considering recent market changes, we still deem it necessary to maintain a certain level of hedging to protect capital prudential. However, as we can tolerate a certain degree of stock price fluctuation risk, the reduction of strategic shareholdings will lead to a decrease in bear funds, thereby lowering the hedge ratio.</p>

Q.3	Could you explain the risk of early termination of term deposits? Given the high proportion of term deposits in your liabilities, how do you anticipate and manage the risk of early termination amid rising interest rates?
A.3	<p>The risk of early termination of term deposits has been thoroughly discussed internally. We use models based on past performance to manage forecasts and actuals, assessing how much the early termination rate might increase during interest rate hikes.</p> <p>However, since Japan has not experienced a normal interest rate rise as the liberalization of interest rates invited the bubble economy, we do not overly rely on current models. We monitor early termination situations in real-time and manage risks accordingly. Through such risk management, we accurately grasp the risk volume and manage the overall ALM.</p>

Q.4	Will the reduction of strategic shareholdings affect your future securities investment policy? I assume that your securities positions were managed based on the unrealized gains of strategic shareholdings. If the reduction of strategic shareholdings decreases these unrealized gains, will the scale of securities investment also decrease?
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A.4	<p>Our management of strategic shareholdings and securities investments in the Global Markets Business are entirely separate. Therefore, we do not manage securities positions based on the unrealized gains of strategic shareholdings.</p> <p>However, considering recent market changes, we recognize the increasing importance of managing securities without unrealized losses. In a deflationary environment, temporary valuation losses on bonds could be expected to recover, but in a rising interest rate environment, long-term bond positions will be limited.</p>
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Q.5	Could you explain the "short position in term deposits" mentioned on page 7 in detail?
A.5	We hold a short interest rate position by intentionally depositing part of the funds raised through term deposits into the BOJ's current account. This structure involves long-term fixed funding against short-term investments. The sensitivity shown on page 7 is based on this funding and investment structure.

Q.6	Regarding the "substantial gross business profit by operations" on page 4, when did the revenue from the ALM funding business bottom out in FY2023? I understand that the "effective interest related earnings" improved year-on-year from mid-FY2023. Does the revenue from the ALM funding business show a similar trend?
A.6	<p>Since the introduction of the negative interest rate policy, market interest rates fell to negative levels, making it difficult to achieve a spread in the ALM funding business. However, as market interest rates have now risen to positive levels, revenue has bottomed out and is improving, indicating an improvement in spread-based revenue.</p> <p>On the other hand, with the continued rise in Japanese interest rates and the inverted yield curve in the US, the demand for Japanese investors to hedge FX risks while investing has significantly decreased. Consequently, the benefits from FX swaps in the deployment of surplus foreign currency are diminishing.</p>

Q.7	Regarding the "strategy to enhance Global Markets Business" on page 5, is it correct to understand that revenue improvement from investment operations is not expected given the current market environment?
A.7	For the Global Markets Business, we do not anticipate Japan returning to a deflationary environment, making it difficult to expand revenue through bond investments. We expect a continued high-volatility environment and aim to achieve stable revenue by diversifying our investment strategies.

Q.8	Regarding the gross business profit plan for FY2024 on page 4, is the improvement in the ALM funding business due to the lifting of the negative interest rate policy, or are there other factors?
A.8	<p>The impact of lifting the negative interest rate policy on FY2024 earnings is estimated and disclosed as an increase of approx. 15 billion yen year-on-year for the entire group. Of this, approx. 5 billion yen is related to the Global Markets Business.</p> <p>While the overall group benefits significantly from the spread expansion effect, the Global Markets Business portion includes not only profit improvement of lifting the negative interest rate policy, but also negative impacts from changes in the BOJ's lending support operations.</p>

Q.9	Regarding the statement "actively utilizing JGB etc." on page 7, how much discretion does the Global Markets Business have in shifting investments from the BOJ current deposit to JGB? Also, what is the expected scale of future investments in JGB?
A.9	If interest rates rise, we may expand investments in JGB (long position) to fix the interest rate risk (short position) of term deposits. However, given the current quantitative easing policy, JGB are overvalued. Therefore, if we hedge the interest risk from term deposits, we prioritize using interest rate swaps while keeping funds in the BOJ current deposit. If the BOJ shifts to quantitative tightening and the overvaluation of JGB relative to interest rate swaps diminishes, we will consider expanding investments in JGB. To hedge the short position of 2 to 5 years mentioned in the materials using 5-year JGB, an investment of approx. 500 billion yen would be required, indicating substantial investment capacity.

Q.10	How does the Global Markets Business contribute to the hedging operations and decision-making regarding strategic shareholdings? In FY2023, SuMi TRUST recorded realized losses due to the reduction of bear funds with low B/E. Could the Global Markets Business have enabled more agile responses through its involvement in decision-making?
A.10	The level of hedging deemed appropriate to mitigate the negative impact on capital prudential during stock price declines is discussed in company-wide meetings. The Global Markets Business participates in these meetings, providing information on future stock price forecasts and other relevant data.

## 2. Initiatives of Real Estate Business

(Presenter: Masaaki Sakamoto, Investment Research Division Head, General Manager,  
Director of Sumitomo Mitsui Trust Research Institute Co., Ltd.  
Takehiko Iwahara, Executive Officer of SuMi TRUST Holdings, Inc.)

Q.1	Could you provide your outlook on the impact of yen appreciation on the corporate real estate market? Additionally, how do you foresee the impact of rising interest rates on property prices in the real estate market for individuals? Do you anticipate a decline in real estate demand from individuals, and a subsequent drop in property prices due to rising interest rates?
A.1	Regarding corporate real estate, there is known to be a correlation between real estate prices and exchange rates based on past data. As it becomes easier for funds to enter Japan from overseas, real estate prices are more likely to rise with a weaker yen. This also applies to assets other than real estate. Therefore, it is believed that there will be some damage to prices during a strong yen period. However, real estate does not vividly respond to exchange rates, and while exchange rates are a factor in price fluctuations, they are not the primary factor. For example, a difference of around 160 to 150 yen per dollar in the exchange rate does not significantly impact real estate prices, and a shift to even around 130 yen per dollar is not expected to cause significant damage.  As for real estate for individuals, rents for condominiums have generally remained stable, and there are expectations for future rent increases. Therefore, while profitability may decrease slightly due to rising interest rates, the impact is expected to be minimal. Additionally, real estate is finite, especially prime properties in urban areas, and unlike other financial products, they are not always available for purchase. Therefore, as long as the long-term asset value for real estate buyers is maintained, investment demand is expected to be sustained.

Q.2	What unique value does a trust bank offer in large-scale corporate real estate transactions, aside from financing arrangements?
A.2	<p>Given that corporate clients often do not have a big team of real estate experts, we provide added value by offering assessments of the value of their real estate holdings, suggesting potential uses post-development, estimating sale prices based on these uses, proposing real estate reallocation strategies, and providing consulting services related to construction.</p> <p>Additionally, for investor clients, we deliver value by not only arranging financing but also by thoroughly understanding their real estate portfolios and recommending optimal asset reallocation. Furthermore, in the expanding real estate securitization market, we will promote the conversion of real estate into financial products through securitization trust services, which include legal compliance and verification of tenants and stakeholders, thereby guaranteeing safe and secure transactions and contributing to the market infrastructure.</p>

Q.3	The report on "Japanese Real Estate Market Trends and Outlook" on page 12 mentions rental trends for real estate for individuals. Are rents for existing properties also rising, and to what extent are rising interest rates reflected in these rents?
A.3	<p>The data on page 12 pertains to the trend of new contract rents for external tenants. The trend for existing tenants is milder compared to new contract rents.</p> <p>However, the conventional business practice for rental apartments is changing. While owners have been reluctant to actively raise rents for existing tenants in the past, there has been an increase in proposals for rent hikes from owners this year, and such proposals have been relatively understood by tenants. This is partly due to the increased ability of tenants to bear the burden of higher rent due to rising incomes. Additionally, as rents are rising across the board for rental apartments, tenants are more inclined to continue living in their current rental apartments even if the rent increases slightly. Furthermore, in the Tokyo metropolitan area, where home prices are high, it is difficult for tenants to move to their own homes, making it possible for owners to raise rental apartment rents.</p>

Q.4	The report on "Initiatives of Real Estate Business" on page 14 shows an acceleration in recurring revenue growth from FY2022 to FY2023. What were the factors behind this growth, and how sustainable are they?
A.4	<p>The revenue growth from FY2022 to FY2023 was primarily due to an increase in balances. Looking ahead to FY2030, we aim to enhance profitability not only through further balance increases but also by receiving appropriate fees for the services we provide. For instance, we are working to improve profitability for both new and existing projects by providing feedback on real estate ESG surveys to asset management companies we already serve, and by offering more efficient and meticulous services to demonstrate added value. By expanding our securitization trust balances and enhancing profitability efforts, we aim to increase profits from 7.2 billion yen in FY2023 to approx. 10 billion yen by FY 2030.</p>

Q.5	The report on "Initiatives of Real Estate Business" on page 16 confirms the expansion of real estate revenue for high-net-worth individuals. With the announced integration of Credit Suisse's wealth management business in Japan by UBS SuMi TRUST Wealth Management in April, what effects and business opportunities do you expect in the real estate business for high-net-worth individuals?
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A.5	In terms of the expansion of our real estate business for high-net-worth clients, the integration of Credit Suisse's wealth management business in Japan by UBS SuMi TRUST Wealth Management has added a wealthy client base that Credit Suisse had targeted to our group's already substantial client base. Based on this, we plan to further strengthen our real estate sales coverage.
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Q.6	The report on "Initiatives of Real Estate Business" on page 18 shows a significant increase in gross business profit from FY2024 to FY2030 for SuMi TRUST Bank, with only a minimal increase in expenses. What are the assumptions behind this expense outlook?
A.6	In the area of real estate securitization business, administrative work accounts for a large portion, and we anticipate a decrease in personnel from 2024 using DX. While we have not factored in wage increases, we anticipate that the reduction in personnel and operational efficiency will lead to a limited increase in expenses and an expansion of gross business profit. Additionally, we anticipate an increase in IT investment not only in 2024 but also over the next five years.

Q.7	The gross business profit forecast for SuMi TRUST Bank in FY2024, as shown in the KPI on page 18, appears ambitious compared to the previous year. Could you provide insights into the pipeline and the certainty of these projects?
A.7	Several large-scale projects that were not finalized in FY2023 have been deferred to FY2024, providing substantial opportunities even in the first half of the year. Compared to FY2023, the number of bidding projects and sale proposal competitions has also increased. Considering the current trends in the real estate market, we anticipate a continued increase in the number of projects, and we are confident in achieving our gross business profit target of 43 billion yen for FY2024.

Q.8	The forecast for SuMi TRUST Bank's gross business profit in FY2030 shows an annual increase of only about 1 billion yen. Considering the stable Japanese real estate market under a weak yen, isn't there potential for higher growth?
A.8	The targeted gross business profit of 49.9 billion yen for 2030 consists of approx. 10 billion yen in recurring revenue and the remaining approx. 40 billion yen from real estate brokerage income. We have set this profit level at the current stage, considering the considerable volatility in the real estate brokerage market and the need to monitor exchange rates and the movements of overseas investors.

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