

Telephone conference (October 30, 2023)

Questions and Answers

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

Q.1	Why did you revise the earnings forecast at this point? Stock prices were rising during the period from April to June, but they were almost flat from July to September in 2023.
A.1	<p>Rather than focusing on the current stock market trends, we are looking at changes in the macro environment. Wage increases, rising interest rates, and a bullish stock market suggest that we are moving towards overcoming deflation. This shift in the macro environment is a tailwind for our group's business, and has led us to accelerate the reduction of our strategic shareholdings and to reduce and change our positions in bear funds.</p> <p>Even if we realize unrealized losses on bear funds, it is neutral for the corporate value. However, some investors may view it negatively as it could cause fluctuations in periodic profits and losses. The aim of this drastic operation also includes addressing future risk factors related to periodic profits and losses.</p>
Q.2	Taking the revision as well as realization of bear fund valuation into account, could you provide information on the status of capital, basic approach to capital policy as well as any constraints on capital usage including share repurchase?
A.2	<p>The status of our own capital will be disclosed on November 14, 2023. Capital accumulates through the increase of profits. Also, the realization of unrealized losses on bear funds does not affect CET1 ratio.</p> <p>The reason for not changing the dividend forecast is that the handling of bear funds this time has no impact on capital and that our business is robust. We do not plan to repurchase our own shares at the timing of announcement of financial results for 1H fiscal year 2023. Basically there is no change in our overall approach to capital policy. We pursue our capital-light business model. Dividends are paid based on periodic net income. Also, as we are in the phase of capital utilization, we will also make investments for growth and consider repurchasing our own shares in a balanced manner. Of course, we recognize that our PBR is below 1x and we are discussing the efficiency of capital utilization, taking that into account.</p>
Q.3	Did you decide to reduce and change bear fund positions in order to take advantage of the positive impact of a rising stock market by capturing the structural changes in the macro environment?
A.3	<p>The changes in the macro environment are the key point. As for the rising stock market, our group's businesses such as asset management and asset administration can enjoy the positive impact. On the other hand, from a financial policy perspective, we will continue to hedge to a certain extent, as we still hold certain amount of strategic shareholdings.</p> <p>Rather than intending to actively enjoy the rising stock market, we have slightly reduced our position by capturing the changes in the macro environment.</p>
Q.4	Wasn't there an option to achieve this term's target without making a downward revision? Also, do you plan to continue improving your bear funds positions by continuously realizing unrealized losses in the next term and beyond?

A.4	<p>There was an option to achieve this term's target without a downward revision, technically speaking. However, we considered it would not be appropriate condition that there remains concerns about future impairments and the impact on periodic profits and losses, considering the changes in the macro environment. Thus, we made decision this time.</p> <p>For the remaining unrealized losses of bear funds, please refer to the material on P4. The unrealized loss of bear funds was approx. 190 billion yen at the end of March 2023, and approx. 245 billion yen at the end of June, but it is expected to shrink to approx. 130 billion yen at the end of September 2023 due to the operation taken in the first half of the year. For the second half, we have disclosed net gains on stocks of approx. 65 billion yen, but we assume that we will realize unrealized losses of bear funds of approx. 100 billion yen on a gross basis. The figures for the second half are based on the assumption that the stock price level will not change, but please understand that the unrealized loss will be further reduced from 130 billion yen.</p> <p>We will continue to hedge, but as we reduce strategic shareholdings as well as our position in bear funds. This could result in realized losses on bear funds. However, the possibility of posting large losses, as has been concerned until now, will be significantly reduced through our operations throughout this fiscal year.</p>
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Q.5	Regarding capital policy, to what extent do you think the governance issues of Custody Bank of Japan, Ltd. (CBJ) will have an impact?
A.5	<p>I would like to refrain from commenting on the CBJ matter.</p> <p>Our views on capital policy, including dividends and share repurchase, have not changed from those we have explained and announced in the past.</p>

Q.6	I would like to inquire about future risks. Will the hedge ratio decrease from 55%? Were bear funds being sold off, or was there to be reduction of bear funds with low B/E?
A.6	<p>The hedge ratio was around 50% in March and June 2023, but it is expected to be approximately 40% as of the end of September 2023.</p> <p>In terms of how we are changing our positions, we are reducing the overall hedge ratio and reducing positions in bear funds with relatively low B/E, and newly purchasing bear funds.</p>

Q.7	<p>Regarding the upward revision of the net business profit before credit costs by 10 billion yen.</p> <p>I believe you were considering the acceleration of strategic shareholdings reduction, the reduction of strategic shareholdings with high unrealized gains, and the upward swing of AUF/AUC as offsets for the realized losses from bear funds. Are these factors not reflected? Also, have you not incorporated the positive impact of the macro environment? On P3, there is a mention of the Nikkei average of 32,000 yen as the market environment assumption for the second half of fiscal year 2023. Is that not taken into account much?</p>
A.7	<p>I understand your question pertains to the upward revision of the net business profit before credit costs. Rather than gains from the reduction of strategic shareholdings, I will explain the business impact from market environment, especially stock market and FX. For the first half results, we saw a positive impact of 2 billion yen from stock prices and 3-3.5 billion yen from a weaker yen. This reflects a half-year impact of +3,400 yen increase in the Nikkei average and +11 yen of the yen depreciation. Please understand that these factors are incorporated into our full year forecast for net business profit before credit costs.</p>

Q.8	Stock price assumption has risen by 4,000 yen compared to before. Is this also factored into the current revision of consolidated earnings forecast for the fiscal year 2023?
A.8	That's correct.

Q.9	Regarding bear funds, I would like to know each ratio of Nikkei Average type or TOPIX type, and the closest impairment level in TOPIX, after the reduction of bear funds with low B/E.
A.9	We have been switching from the Nikkei Average type to the TOPIX type, and as of the end of September 2023, all bear funds have become TOPIX type. Also, after the operation to reduce bear funds with low B/E scheduled for the second half, the lowest impairment level will be about 3,000 points in TOPIX.

Q.10	Could you please tell us if there is a possibility that net income and net gains on stocks for the last fiscal year of the Medium-Term Management Plan might increase due to the recent reduction of bear funds with low B/E?
A.10	<p>We believe that the certainty of achievement of profit targets from the fiscal year 2024 onwards has increased due to our recent operations. We have not revised the earnings forecast for the fiscal year 2025 at this time, but we will consider it depending on future circumstances. First and foremost, we want to achieve the revised forecast for the fiscal year 2023 that we have just amended. As we continue to reduce strategic shareholdings, we will continue to reduce bear funds.</p> <p>We would like to disclose the future direction of net gains on stocks when revising the plan.</p>

Q.11	Regarding the upward revision of 10 billion yen in Substantial Gross Business Profit. I got the impression that you adjusted upwards by mechanically adding the sensitivities to stock prices and FX rates. Is my understanding correct? Expenses should increase considering the sensitivity to FX rates, but the forecast amount remains flat. Apart from reflecting FX rates and stock prices, were there any negative factors?
A.11	<p>As you mentioned, the expenses of overseas branches increase due to FX rates. However, there are other factors as well, so we are indicating a +10 billion yen in gross business profit. The upward revision of 10 billion yen does reflect the sensitivity to stock prices and FX rates, but it is not simply mechanically applied. We have also taken into account the performance of the first half and the outlook for the second half of each business. We will disclose the performance and forecasts for each segment on November 14, 2023.</p>

Q.12	Regarding bear funds, in addition to addressing the issue of large balances of strategic shareholdings by implementing bear fund management, there is also the method of accelerating the reduction of strategic shareholdings. Is there a possibility of such a change?
A.12	Please refer to P7. The reduction in the first half of fiscal 2022 was approx. 9.9 billion yen, but in the first half of fiscal 2023, a reduction of approx. 20 billion yen has been made. We are accelerating the reduction of strategic shareholdings. It is expected to exceed a reduction of 50 billion yen for the full fiscal year 2023, and we are accelerating the reduction while gaining the understanding of our trading partners. We would like to continue to further reduce in the future.

Q.13	I would like to understand how you perceive the significance of holding bear funds. If the B/E is 40,000 yen in the Nikkei average, it seems like you are anticipating a significant stock rise. Why is there a need to continue holding bear funds?
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A.13	The hedge with bear funds is conducted to mitigate the volatility of stock prices against our capital, as we hold a certain amount of strategic shareholdings. In that sense, there is significance in continuing our efforts. However, we believe that it is not necessary to hedge all stock price fluctuation risk, and a certain level of share price risk against capital is tolerated. As the reduction of strategic shareholdings progresses, if the portion held as open exposure remains unchanged, the hedge ratio will decrease.
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Q.14	I would like to inquire about the hedge ratio. What is the basis for the ratio of about 40%? Also, what do you consider to change this 40% ratio in the future? I want to understand the possibility of verification and the way of thinking.
A.14	The balance of capital and strategic shareholdings is one of the factors to consider. As mentioned earlier, we believe it is acceptable to have a certain open position for stocks.  The ratio of 40% will change as we observe changes in the market environment, but we believe that if we reduce strategic shareholdings, the hedge ratio will also decrease.

#### 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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