

IR Day (August 3, 2023) Questions and Answers

1. Initiatives of Retail Business

(Presenter: Nobuaki Yamaguchi, Executive Officer of SuMi TRUST Holdings, Inc.)

Q.1	Regarding the KPI on page 13, net business profit before credit costs is planned to decrease over the three years of Medium-Term Management Plan due to investments in DX and human capital. Substantial gross business profit of the Retail Business in FY30 ("Aspiration") is planned to increase by 20 billion yen compared to FY22. I would like an explanation about the timeline in which the effects of the investments will contribute.
A.1	<p>During the period of Medium-Term Management Plan, we will make investments to implement the measures we have set forth. For example, we will invest in human capital to promote total consulting services, and in expanding online and non-face-to-face channels. In addition, investments will be needed for efficiency improvements in administrative work to transform branches into advanced consulting venues, hence expenses are planned to increase.</p> <p>The timeline to realize investment effects includes short-term ones and those that require more time, but we plan to increase substantial gross business profit of the Retail Business by 4 billion yen from FY22 to FY25. We are refining a figure of profit growth but aim to increase our net business profit towards FY30.</p>

Q.2	As Head of Retail Business at SuMi TRUST Bank since April, I would like to know if there are any areas or contents in the Medium-Term Management Plan that you feel have not been sufficiently communicated or that you would like to focus on in the future.
A.2	<p>Medium-Term Management Plan was developed over a long period of discussion between management and the employees, with a view to FY30. We are confident that it is a plan that can realize growth by leveraging our strengths.</p> <p>Our uniqueness and advantage in the Retail Business is an ability to offer "consulting services based on future cash flows" to our retail clients, a field that no financial institution has been able to systematically provide so far. We are able to provide such services by collaborating with the Investor Services Business, which has expertise in pensions.</p> <p>In terms of business expanding into the workplace, the strong relationships with corporate clients and investment education that the Investor Services Business has built up over the years from our workspace business base. Our advantage is that we can leverage it to expand into "B to B to C" and "B to B to E".</p> <p>We recognize the need to add distinction to our business portfolio. First and foremost, based on the Medium-Term Management Plan, we will focus on enhancing and evolving our total consulting services.</p>

Q.3	The amount of new mortgage loans by SuMi TRUST Bank in FY22 decreased compared to the previous fiscal year. Considering changes in profitability and channel strategy, I would like to hear about the future positioning and policy of mortgage loans.
A.3	<p>There is no change in our policy of expanding our client base, focusing on those who are formulating assets, with the mortgage loan business as the starting point. On the other hand, our goal is not simply to increase the amount of new mortgage loans, but to continue to acquire clients who have a high desire to formulate assets.</p> <p style="text-align: right;">(Continued to the next page)</p>

	<p>We recognize that the environment surrounding mortgage loans is becoming more challenging, with rising real estate prices, intensifying competition for lower interest rates among online-only banks, and an increase in risk weight on finalized Basel III . Therefore, it is important to increase profits based on mortgage loans, and we aim to have our clients of the asset formation generation become fans of us through our mortgage loans and expand transactions with them continuously.</p> <p>At SuMi TRUST Bank, it is not the so-called Mortgage Loan Center, but the department that engages overall life plan consulting business that serves as an interface of clients for mortgage loans. After consulting with clients, we propose supplement of sickness insurance and instalment investment for future preparation, and we also strive to have clients choose us for reasons other than interest rate conditions. In fact, the attachment rate of sickness insurance exceeds 60% for new mortgage loan transactions, and more than half of our clients are using instalment investment.</p> <p>Our mortgage loan clients are mainly busy working-age people, and it is difficult to visit our branches or contact us during the day. Therefore, we are making various efforts to have them become our fans, such as securing contact points using online channels and building lifelong relationships by supporting various life events even after purchasing a house.</p>
Q.4	<p>Looking at the connection between AUF (balance of investment management consulting) and revenue on page 6 of the material, the contribution to revenue is relatively small compared to the increase in AUF. I would like to hear your future outlook on the expansion of AUF and the increase in revenue. Also, how will you ensure profitability in the future, considering the expected decrease in the commission rate of investment trusts?</p>
A.4	<p>It is true that the commission rate including investment trusts is decreasing due to intensified competition and other factors. On the other hand, considering the social support for asset formation, such as the launch of new NISA, we believe that the trend from savings to investment will continue.</p> <p>In asset management consulting of retail clients, we will conduct it based on the concept of long-term diversification and combination of asset management styles (core and satellite), taking the needs of our clients into account, and increase revenue by expanding the scale of our entire business.</p> <p>The fund wraps handled by our group are constantly reviewing and improving their product quality based on the needs of our clients. In addition to the fund wraps as core investment products, we propose a satellite type of asset management, flexibly reviewing investment products based on market conditions, while improving profitability of retail business.</p>
Q.5	<p>Regarding on page 12, I would like to inquire about the linkage of the NEOBANK function provided by SBI Sumishin Net Bank and Smart Life Designer (SLD). In addition, I would like to hear your thoughts and current situation regarding the channels, products and clients referrals with SBI Sumishin Net Bank.</p>
A.5	<p>Currently, we are planning to implement the NEOBANK function provided by SBI Sumishin Net Bank into SLD.</p> <p>In advancing our "B to B to C" business, our workplace clients utilize functions such as the future cash flow simulation provided by SLD. However, NEOBANK, which has highly convenient digital ATM and debit card, is superior regarding the banking functions such as daily payment. By adding this function to SLD, we hope our clients to feel more familiar with SLD and willing to use it.</p> <p>The implementation of NEOBANK into the SLD is one of the solutions for our clients , and we do not anticipate clients referrals from SBI Sumishin Net Bank to us in this initiative.</p>

Q.6	Although the segment ROE for the Retail Business is planned to decrease from 10% in FY22 to 9.5% in FY25, I would like to inquire about the consistency with the decrease in net business profit before credit costs. Please also explain if there are any focusing initiatives in terms of the ROE target.
A.6	Looking towards FY25, we anticipate an increase in gross business profit due to prior investment, but a decrease in R (return). Regarding E (equity), mortgage loans are considered as an important product for clients to start transactions with our group. However, considering the impact of the finalized Basel III, we believe that RWA control should be necessary. In the future, we aim to manage ROE at a level exceeding 10%.

Q.7	Regarding the real estate-related income on page 8, I would like to hear about the factor of improvement in income growth from FY25 to FY30. Please also explain the impact on real estate-related income if the yen interest rate rises in future.
A.7	<p>It is estimated that approximately 15 trillion yen of our clients' assets will be inherited in a generational circulation by FY30.</p> <p>Many of our retail clients own real estate. Assuming that a half of the inherited assets is real estate, approximately 1 trillion yen of real estate will be circulated each year. Under such an assumption, we believe that our income growth can be achieved when closing rate and brokerage fee are taken into account. Please understand this as our group's intention to accelerate initiatives in the Real Estate Business within the virtuous circulation of funds, assets and capital. We will continue to provide consulting to retail clients with asset succession needs, capture those needs accurately and improve our ability to increase the closing rate which will lead to improving the profitability of real estate-related business.</p> <p>If the yen interest rate rises, there may be an impact on investment real estate. However, demanding related to real estate in asset succession is relatively stable as their own use, therefore we would continue to focus on such an actual demand by retail clients.</p>

Q.8	Regarding the KPI on page 13, please provide the forecast for net business profit before credit costs for FY30.
A.8	Entire Retail Business is working together to achieve solid growth based on our strength and accelerate our initiatives. We are currently refining the specific figures for net business profit before credit costs, but we aim to exceed FY22 and further improve our ROE.

2. Initiatives of business for Investor clients

(Presenter: Futoshi Itani, Executive Officer of SuMi TRUST Holdings, Inc.)

Q.1	Please explain the growth drivers and the image of revenue expansion over time, specifically for FY25 and FY30, as outlined in net business profit on page 14 of the materials.
A.1	Until FY25, we will focus on meeting the investment needs of our clients through private assets, considering the increasing needs of investors including major financial institutions and regional financial institutions. Towards our "Aspiration" for FY 30, we aim to further expand our private asset-related AUM by developing and offering products with characteristics similar to loan trusts, in response to the large-scale financing demand accompanying the transformation of industries and social structures, and by providing investment opportunities to retail clients. Through these initiatives, we aim to expand our revenues.

Q.2	What is your view on the outlook of revenue opportunities for Private Equity (PE), including this fiscal year, and your approach and readiness for its risk?
A.2	<p>Most of the investment revenues from PE of our own proprietary account are recognized in accounting terms by fluctuations in Net Asset Value (NAV), but in 1QFY23, the contribution to revenues from such fluctuations was decreased YoY, which was one of the factors contributing to the decrease in revenues in the Investor Services Business segment.</p> <p>In order to attract large amounts of funds from investors to PE funds and impact equity investment by our Corporate Business, a certain level of our own proprietary investment is required. From the perspective of our performance and impact on capital, we will further sophisticate the management of fluctuations in NAV and maintain strict control.</p>

Q.3	I understand that discussions are underway to improve PER. Could you provide a concrete image of this?
A.3	<p>From this fiscal year, we have established the Asset Management Business Committee in our Group, which includes the presidents of both SuMi TRUST Holdings and SuMi TRUST Bank, as well as internal related officers and the presidents of Sumitomo Mitsui Trust Asset Management (SuMiTAM) and Nikko Asset Management (Nikko AM).</p> <p>To achieve a PBR of 1x, the key is how we can highlight our unique features in the asset management business, and there is high expectation from our employees. We have launched various measures and released information about collaborative services, but my strong desire is not just to accumulate individual projects, but to put forth a differentiated story of our asset management business encompassed in our group strategy as a whole. I believe Mr. Takakura, the president of SuMi TRUST Holdings, and Mr. Oyama, the president of SuMi TRUST Bank, feel the same way.</p> <p>At present, we are verifying the adequacy of SuMi TRUST Group's asset management business strategy and structure, taking into account "Progress Reports on Enhancing Asset Management Business 2023" issued by FSA and other factors. We are also considering what we can do as a trust group for initiatives by the Government of Japan to expand and activate asset management market in Japan. In terms of true asset management capabilities, we want to clarify in which areas and how we will strengthen them. In the Asset Management Business Committee, a certain consensus is being formed on the identification of areas. Based on internal discussions, we would like to inform you again in the future.</p>

Q.4	How do you view the relationship between the Business for Investor Clients, the Retail Business and the Corporate Business? I would like to hear about changes in collaboration with each business and the businesses that will be focused on through collaboration, looking ahead to FY30.
A.4	<p>We believe that the collaboration with the Retail Business is relatively easy to understand by referring to DB and DC. We have a business base of 13 trillion yen in AUM and 3 million beneficiaries for DB, and 4 trillion yen in AUM and 1.7 million beneficiaries for DC. In these businesses, we are actively involved in system management and provide consulting services to our clients.</p> <p>In addition, we have 17 trillion yen in AUM and about 4.5 million beneficiaries for Mutual aid associations. In total, we have around 35 trillion yen in long-term funds for asset management over time through "B to B" transactions.</p> <p style="text-align: right;">(Continued to the next page)</p>

	<p>We would like to continue our long-term relationship with the approximately 9 million employees of these corporate clients as our retail clients even after they retire. As the Business for Investor Clients, we have an advantage of being able to directly handle not only traditional investment assets with sufficient liquidity in the market, but also assets with low liquidity such as private assets, as a financial group with a variety of contact points of clients and investment projects. Being able to directly contact investment projects at the primary stage means that we can originate projects through frameworks such as a proprietary investment in impact equity, and also lead as a pioneer in investments.</p> <p>Rather than focusing on collaboration with either the Retail Business or the Corporate Business, we first have the Corporate Business and the Real Estate Business take on the origination at the upstream of asset management, and then the Investor Services Business makes it easy to invest in products and offers them to investors. For example, we deal with individual investors with longevity who have contact points in pension businesses as our clients even after retirement in a "B to C" relationship. The key to differentiation is whether we can seamlessly carry out this series of flows.</p>
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Q.5	Regarding the revenue corresponding to Group AUF on page 14, it appears that while AUF is expanding, profitability is declining. I would like to know the reasons behind the inability to enjoy scale benefits.
A.5	Going forward, a certain degree of profitability decline is expected in the B to B business domain. Therefore, compared to the expansion of AUM, the increase in revenue is seen as limited. We would like to maintain profitability by expanding AUM mainly in investment areas with high expected returns, such as private assets.

Q.6	SuMi TRUST Holdings owns several asset management companies such as SuMi TAM and Nikko AM. Could you please explain the synergy effects on revenue and expenses?
A.6	SuMiTAM and Nikko AM have different backgrounds and company characteristics, so at this point, we plan to proceed with strategies in parallel for both companies. However, we will standardize departments where cost synergy can be achieved, such as internal management departments. In addition, we are considering achieving cost synergy by consolidating common internal operations to SuMi TRUST Bank. Furthermore, at the Asset Management Business Committee, we are discussing the direction of our Group's asset management strategy while leveraging the strengths of SuMi TRUST Bank, SuMiTAM and Nikko AM.

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