

Q&A of Panel Discussion by External Directors (March 5, 2024)

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External Directors	: Mitsuhiro Aso / Nobuaki Katoh / Kaoru Kashima

Panel Discussion

1. Introduction

Q. Could you please introduce yourselves, and share what agenda are you expressing your opinion on and how you contribute to the Board of Directors?

A. **Katoh** : During my tenure as President of Denso Corporation ("Denso"), I experienced events such as the 2008 Financial Crisis and the Great East Japan Earthquake. What I always kept in mind during those times was that "reality exceeds expectations". I believe it is my role to bring this perspective to our company's Board of Directors meetings.

Furthermore, based on my experience in the manufacturing industry at Denso, I believe that the growth and sustainability of a company are determined by two factors: technological development capabilities and human resources. In the financial industry, I believe this corresponds to product development capabilities and corporate culture, including human resources. I make it a point to voice my opinions particularly on topics related to these areas.

A. **Kashima** : I have 38 years of experience working as a Certified Public Accountant at an audit firm. In addition to statutory audits, I was involved in various tasks such as financial due diligence and support for the development of internal control systems. Therefore, I make sure to express opinions in my areas of expertise, namely accounting, auditing, internal control, and disclosure-related topics.

Furthermore, I have also been involved in management as a managing director of the audit firm and as president of a subsidiary. At the audit firm, I experienced tasks in the fields of human resources, women's empowerment, corporate culture, and public relations. In particular, my experience in human resources, such as the establishment of work-life balance support systems, reform of the entire personnel system, and the launch of networks that contribute to women's empowerment, has become a significant asset for me. Our company is also actively investing in human capital and strengthening the promotion of women's empowerment, and I believe I can contribute based on my experience in these fields.

A. **Aso** : Since becoming a prosecutor in 1975, I served for a total of 38 years in the Public Prosecutor's Office and the Ministry of Justice, retiring from the position of Superintending Prosecutor in 2012. After working on the front lines of investigations and trials, I was involved in the organizational management of the Public Prosecutor's Office from the positions of Superintending Prosecutor and Chief Prosecutor. At the Ministry of Justice, I was involved in planning and drafting criminal legislation, and responding to parliamentary inquiries on prosecution and rehabilitation. After retiring from office, I have been active as a lawyer and have taught at law schools from the perspective of a practitioner well-versed in criminal law, criminal procedure law, and overall criminal policy. I also served as a Refugee Examination

Counselor at the Ministry of Justice, where I was involved in refugee certification procedures and had the opportunity to deepen my understanding of human rights. As a member of our company's Board of directors, I pride myself on being expected to play a role in saying no when I have to. Particularly in discussions related to compliance, I believe that expressing strict opinions without speculating others' thoughts contributes to the Board.

2. Capital-efficient growth strategy

【Views on our stock price】

Q. The Nikkei 225 has exceeded 40,000 yen, but stock price of Sumitomo Mitsui Trust Holdings ("SuMi TRUST") is lagging behind. I would like to know the Board of Directors' views and sense of urgency about the stock price, including the fact that PBR is less than 1.0x.

A. **Katoh** : With the Nikkei performing very well, we recognize that the market's expectations for our stock price are heightening. The Tokyo Stock Exchange made its request regarding PBR last spring, but our Board of Directors had been discussing how to aim for a PBR of more than 1.0x even before that. When we started discussions, I was surprised that the PBR was less than 1.0x in the financial industry in general, not just our company, but we understand that one of the reasons was the demand for capital adequacy, such as CET1 ratio regulations. The Board of Directors is strongly aware of the need to improve PBR, and in particular, Mr. Takakura, President & CEO, has repeatedly mentioned the need to improve PBR at the Board of Directors meetings. Specifically, he frequently talks about the need to break down PBR into ROE and PER and improve both, as well as what is needed to do so. This approach is theoretically correct and I personally agree with it. My impression is that we have been discussing this issue ahead of trends in society.

I would like to mention PER here, as we will discuss the improvement of ROE later. I understand that PER represents future expectations of investors for the company. I think one of the reasons why the PER is low, not only at SuMi TRUST but more generally in the entire Japanese financial industry, is that investors perceive us as being too conservative in our management. Growth strategy is important for improving PER, and I believe it is necessary for investors to be confident in how the company will grow through various means and strategies. Our company is working on the "age of 100-year life", "ESG/Sustainable Management", and "Networking" as the three pillars of value-creating businesses in the Medium-Term Management Plan. I believe this direction is correct but, instead of only steadily advancing our efforts, we also need to improve our communication. In order to gain the further understanding and support from all our stakeholders, we should increase opportunities for communication and dialogue, just like we are doing today.

In order for a company to grow, it needs to create new markets and have products and merchandise that are more competitive than peers. I believe that the source of growth is technical capabilities that are not found in the public or in other companies. When considering the drivers of our future growth, our products and services are important, and we should further discuss them at the Board of directors meetings. SuMi TRUST is well-versed in a wide range of businesses centered on the trust business and has brand power.

We intend to accelerate growth by deepening discussions on products that have potential to contribute to achieving Asset Management Nation, and products and services that have competitiveness over our peers. On the other hand, because we are engaged in a wide range of businesses, it is difficult to focus on growth strategy discussions within the limited time of the Board of Directors meetings. In the future, we would like to deepen discussions on growth strategies, disclose the results appropriately in a timely manner, and strive to get the support from all our stakeholders.

【Views on business strategy】

Q. Could you provide some details on the deliberations at the Board of Directors meetings regarding the formulation of the current Medium-term Management Plan's strategies?

A. **Katoh** : The formulation of the strategies involved thorough discussions over a period of about a year. Particularly, significant time was devoted to deliberations on the selection of value creation areas. We set the goals for the upcoming three years of the Medium-term Management Plan by thinking about what we need to do to fill the gap between our present state and our aspiration by fiscal year 2030.

Q. Could you share your perspective on our company's strategy?

A. **Kashima** : External directors have a strong interest in the PBR being below 1.0x. Considering the Corporate Governance Code and requests from the Tokyo Stock Exchange, we believe that the goal of "ROE of 10% or above by fiscal year 2030" is an important one, both in terms of meeting external expectations and improving PBR. PER can be said to be an expectation for the future, but in order to achieve ROE of 10% or above, we believe that the first important discussion is how to grow current profits. Such discussions should result in increased expectations and trust in our company from our investors, leading to an improvement in PER. To increase profits, it is crucial to strengthen the business portfolio by discussing the optimal combination of businesses. In fact, I have the impression that discussions about the business portfolio have become more frequent and concrete. We are actively discussing about our analysis of the business portfolio, and the businesses that should be improved or withdrawn from, at the Board of Directors meetings. In the process of these discussions, we are able to have high-quality discussions on how to enhance our overall value, including not only economic value but also non-financial value-added, and social value that can only be provided by our Group.

On the other hand, the challenge we face is the lack of sufficient data, which serves as the foundation for engaging in more effective discussions. A trust group has various businesses, and in the course of developing interrelated businesses, it is insufficient to just focus on the profits and losses of individual businesses. The challenge is that we have not been able to quantitatively analyze and explain the contributions between businesses. If the degree of contribution can be visualized with rational numbers, I feel that the quality of future discussions will further improve. The execution department also shares this basic understanding of the issues, and is actively working on clarifying cross-business contributions, and the integration with non-financial indicators.

3. Corporate governance

[Nomination Committee]

Q. SuMi TRUST has 15 directors, which seems large considering sectors other than finance, and international companies. Could you share the Nominating Committee's thoughts on the composition of the Board of Directors?

A. **Aso** : First, I would like to explain how our governance structure has evolved. When I became an external auditor of Sumitomo Mitsu Trust Bank ("SuMi Trust Bank") in 2016, SuMi TRUST was still a company with a board of corporate auditors. I was involved as an observer in discussions to review our institutional design, and it was concluded that we should transition to a company with three committees, which led to the current system in 2017. The purpose of the transition was to delegate a significant amount of business execution decisions to the executive officers appointed by the Nominating Committee and to operate flexibly. The executive officers were in charge of managing the company, and the Board of Directors assumed the supervisory role. In addition, SuMi Trust Bank, Sumitomo Mitsui Trust Asset Management, and Nikko Asset Management, our subsidiaries, also transitioned to companies with an Audit and supervisory committee, improving our group's governance. Since the Corporate Governance Code was established in 2015 and has permeated since then, governance has improved not only in our company but also in other companies. We believe that continuous efforts are necessary for the further sophistication of governance. There may be various views on the appropriate number of directors. From the perspective of discussion alone, it could be said that less than 10 may be more appropriate, but considering our wide-ranging and highly specialized business areas, one could argue that we should have more directors. Personally, I feel that having a small number of directors may also be fine, but we are currently able to operate the board without any issues. In addition, in terms of the structure and composition of the board, SuMi TRUST has voluntary committees in addition to the three statutory committees. All three statutory committees are composed of a majority of external directors. Of the 15 directors, 11 are non-executive directors, and while the 7 external directors do not constitute a majority, the chairman of the Board of Directors is an external director. There are two female directors, which accounts for 13% of all directors and is not a high percentage, and there are no foreign directors, but at our group companies, Sumitomo Mitsui Trust Asset Management and Nikko Asset Management, there are female and foreign directors who are actively taking part. In any case, we believe it is important to have an effective board of directors. As someone who has been involved with our company for a long time, I feel that the nature of our Board of Directors has changed. For example, our Board of Directors is characterized by long discussions, but we have defined the ideal state of the Board of Directors as focusing discussions on basic policies and strategies, and the content of discussions has become more organized. In addition, with the enhancement of prior explanations to directors and appropriate input of knowledge, the discussions have evolved from formal to substantive, with directors actively participating.

【Audit Committee】

Q. Could you please share the key points of discussion in the audit committees of group companies?

A. **Aso** : Looking at past examples at other companies, accounting frauds often occur at group companies, both in Japan and overseas. We too have been focusing on auditing our group companies from this perspective. Moreover, we believe that auditing group companies is meaningful from the perspective of implementing group management strategies. The audit committee conducts audits of group companies not only for illegality in the execution of duties by executives, but also from the perspective of the appropriateness of such execution. We also take into account the differences in size of each group company. For large-scale group companies, we ensure effectiveness by regularly exchanging opinions with their audit committees, to better understand each other's thoughts. On the other hand, for smaller group companies, we encourage the strengthening of their systems, through measures such as support from our internal audit department.

【Discussion at the Board of Directors】

Q. Given the favorable external environment, it may be possible to achieve the ROE target in the Medium-Term Management Plan earlier than expected. Could you tell us about the discussions on ROE at the Board of Directors?

A. **Katoh** : Today a growing number of companies are focusing on ROE, but SuMi TRUST has been a pioneer in discussing ROE. Improving capital efficiency involves not only growing profits, which is the numerator, but also compressing capital, which is the denominator, a theme that requires courage as a corporate manager. The question is how to reduce strategic shareholdings and use surplus capital for future growth investments and shareholder returns. Seeing the rapid progress in unwinding of strategic shareholdings in Japan, I am surprised by the extent that Japanese companies can transform themselves. I think there were triggers such as requests from the Tokyo Stock Exchange, but I feel it's a very good trend. I expect our efforts to reduce strategic shareholdings towards zero will accelerate, with such favorable changes in the external environment, and our counterparties are becoming more understanding, although it takes time to gain their understanding because we have business relationships with them.

In addition, our company regularly repurchases its own shares and is strengthening shareholder returns through dividends. In addition, we are making equity investments, as well as investing in human capital and IT/digital technologies, and I feel that we are starting to use surplus capital for future growth.

A. **Kashima** : I highly appreciate our company declared zero strategic shareholdings initiative in 2021, and has been making steady progress since then. In order to improve ROE, it is important to discuss our financing, namely about capital and how to generate profits. The current environment is a tailwind for our Group, and we should further deepen our discussions towards early achievement of the ROE target. One point to note in this regard is how to take risks when embarking on new initiatives. I believe we are a financial institution that is able to rigorously manage risks that should be avoided within the RAF (Risk Appetite Framework).

On the other hand, we have not yet reached a sufficient consensus internally about our risk tolerance. In order to achieve the ROE target ahead of schedule, we will deepen our discussions on the concept of risk-taking.

A. Aso : As a related topic, the company has made progress in restructuring its position in bear funds held for hedging purposes in relation to strategic shareholdings. Although profits decreased in the short term, I believe this was a major positive step forward.

Questions and Answers

Q.1	<p>With the current favorable market environment, some banks are approaching a PBR of 1.0x. Could you tell us if the Board has discussed the company's goals after achieving a PBR of 1.0x? Also, are there any issues other than those discussed so far regarding the improvement of PBR?</p>
A.1	<p>Katoh : A market capitalization that is lower than a company's net assets is an abnormal situation and signifies that the market does not value us. We believe we should focus all our energy on achieving a PBR of more than 1.0x. After that, we will consider goals for further PBR improvement.</p> <p>In terms of what is needed for growth, we perceive that retail investors prefer investing in individual stocks over investment trusts. We believe this is because the mechanism of investment trusts is complex and not well understood. We want to make the appeal of investment trusts visible, deepen retail investors' understanding, and expand our AUF (Assets Under Fiduciary) by providing good products.</p> <p>Kashima : I agree that our goal for PBR should be more than 1.0x. Achieving a PBR of more than 1.0x is not easy, but we will aim for it.</p> <p>To achieve our goals, it is important to deepen our stakeholders' understanding of our company, so the way we disclose information is crucial. Also, we cannot expect investors to look forward to our future without showing actual results. It's not easy to achieve results, but the important thing is to show that we are gradually improving.</p> <p>We disclosed our AUF, which is a unique metric and an interesting concept related to profitability improvement. It may be difficult to understand from outside the company, so we need to think about a way to disclose it that is easy to understand. We intend to improve our PBR through these various efforts.</p> <p>Aso : For example, there are reports showing data that companies with a higher ratio of women have higher PBR and ROE. We understand that improving diversity in governance is also important from the perspective of improving PBR. We would like to continue discussing the composition of the board at the nomination committee, keeping such perspectives in mind.</p>

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Q.2	A question to Director Aso. It is said that you have expressed strong opinions on compliance. Could you please tell us what specific discussions have taken place?
A.2	<p>Aso : For instance, I have pointed out to the management that they should recognize the seriousness of the scandal caused by a former employee, which we have disclosed in the past, and take measures accordingly. Despite having mechanisms in place to prevent misconduct, we were unable to prevent this incident due to a loophole. In addition to recognizing this as a very serious issue from the perspective of criminal behavior, I pointed out that the management should take seriously the fact that such a scandal occurred in our trust banking business, where we handle clients' funds.</p>

Forward-Looking Statements

This document includes notes on future earnings.

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