Investor Meeting on Financial Results for FY2017 (May 22, 2018) Questions and Answers

Q1.	What is the reason for domestic loan-deposit spread to be bottoming out? Has the slight increase in TIBOR had an impact? Please tell us about the share of domestic lending that is linked to TIBOR. Do you foresee continuous improvement beyond FY2018?
A1.	Regarding our domestic loan portfolio, about 25% is linked to the short term prime rate, 45% is linked to other indices such as TIBOR, and 30% is fixed rate. The main factor for the improvement of domestic loan-deposit spread is our efforts to control funding cost. We have reduced introductory interest rates for new deposits to lower our funding cost. On the lending side, we have focused on profitability to restrain fall in yields, but tangible improvement is expected to take time. As we need to be flexible in lowering deposit interest rates and improvement in loan demand has been muted, we have made our profit forecast based on the assumption that we do not foresee any drastic improvement of domestic loan-deposit spread, but rather expect the margin to stay flat or improve incrementally at most.

Q2.	Please explain the role/positioning of SBI Sumishin Net Bank (“Net Bank”) within the Group’s business strategy.
A2.	Our original aim for the Net Bank was to acquire a younger client base in comparison to SuMi TRUST Bank’s branches, whose clients are mainly in the 50s/60s age group. However, after reviewing the actual client base of the Net Bank, we have found that there are not only younger clients, but also many clients in the 50s/60s age group. As such, our approach has been to provide services that merge net and branch banking. Also, the Net Bank is at the forefront of fintech implementation with the support from the SBI Group and has been offering various knowhow to SuMi TRUST Bank. We view the Net Bank as an important entity within our group going forward.

Q3.	Please summarize the results for FY2017 from the view point of what has been achieved and what has not been accomplished.
A3.	Overall, I believe that we had a good run as the first year of our new Midterm Plan. One area where we made progress according to our plan is improvement of our B/S profitability. This was expected to take some time, but we have managed migration of assets in this one year to a certain degree. Also, regarding asset management, we expanded our product offering, Nikko AM’s results were encouraging and our DC plan base and its balance increased steadily. One area where we recognized we had work to do was overshooting of expenses. Though certain items such as retirement allowance were unavoidable, I am of the impression that we could have made a little more progress in reducing the group’s overall expenses.

Q4.	Please let me confirm your ideas about shareholder return.
A4.	Our basic philosophy for shareholder return is that, on top of cash dividends to return annual profits, once we reach a stage where we have accumulated capital to a level that is prudently

	sufficient, while taking investments for growth into consideration, we should contemplate share repurchases from our accumulated capital base. Currently we are still in the capital accumulation stage in preparation for Basel III finalization, so we are managing our dividend and share repurchases considering the balance between the two. Once we attain a level where we can comfortably maintain CET1 ratio of 10% on a finalized Basel III reform basis, we would like to implement share repurchases utilizing our accumulated capital.

Q5.	Regarding your branch strategy on P27, you plan to reduce backoffice work by 70% in 5 years and create 1600 staff equivalent for redeployment. Does this have a positive topline impact or alternately, does this contribute to cost reduction through reduction of staff?
A5.	While there are cost savings from reduced office space due to reduction in administrative work, basically, I envisage redeployment of backoffice staff to marketing roles, so this strategy would have a positive impact on the topline. We have already distributed host-DB linked tablets to all client relationship marketing staff in branches which has reduced branch administrative work by 10% and increased client contacts by 10%.

Q6.	Previously, you had mentioned that the number of client visits to branches had not decreased. Is this still the case now? Also, how do you envisage marketing to take place in your branches going forward?
A6.	There has been no decrease in client visit numbers since establishment of SuMi TRUST Bank in 2012. Effective number of branches after the merger/closing of branches due to the bank merger has been reduced by 24% and is currently 117. We have no plans to reduce this number further, but rather we plan to open our next generation trust type branches, with reduced backoffice space and consultation-centric functionality, in major metropolitan areas where we have no current coverage.

Q7.	Please explain your discussions about ROE calculation for each division.
A7.	Our business model is based on the proposition that retail and corporate total solution businesses work in conjunction with specialized businesses such as real estate, stock transfer agency, pension and asset management/administration to create high value-added services. We have shared some internal management ROE reporting based on this premise, albeit with some rudimentary assumptions. However, there are on-going discussions about how to reflect cross-divisional interaction in divisional ROE. We would like to further explore what is the optimal divisional ROE methodology suited to the SuMi TRUST Group's business model.

Q8.	I understand real estate brokerage for the retail market is doing well, do you have plans to deploy additional resources such as increase in staff? How do you envisage winning against the competition?
A8.	Retail real estate brokerage is handled by our group company, SuMi TRUST Realty whose primary

	marketing staff are full-time staff though there are a limited number of bank alumni and staff seconded from SuMi TRUST Bank. We intend to leverage our competitive advantage as a trust bank which other companies do not have, such as collecting real estate buying/selling needs from wills and inheritance leads.

Q9.	With the finalization of Basel III reform in view, other banks are also targeting asset management as an area of focus. Please let me confirm your strategies for inorganic growth with this in mind.
A9.	There is no change to our strategy to focus on asset management as the area for inorganic growth. Asset management is a growing business attracting interest from other banks, but we do need to keep profitability of the business in mind as there is a global trend towards passive investments from active. We believe that inorganic growth is one of the options to attain our goal of AUM ¥100trn, but we shall proceed sensibly cognizant of the current premium attached to asset management companies. We would like to focus on expanding our functionalities as our objective, not limiting ourselves to attaining majority control but also minority investments and alliances.

Q10.	Regarding US treasuries investments, your hedging strategy has shifted from using derivatives to bear-type bond investment trusts. Please explain the pros and cons of this shift. Also, why do you need to hold long and hedge positions rather than simply divesting the bonds?
A10.	Derivative hedges are subject to mark-to-market accounting whereas the accounting rules for US treasuries is not and treated as available-for-sale securities, and as a result, profit and losses generated from the positions appear as different line items on an accounting basis. Bear-type bond investment trusts are also categorized as available-for-sale securities which has no discrepancy in accounting treatment, and makes risk management easier, as well as profit and loss management. Not divesting US treasuries but holding them as long and hedge positions, is a temporary arrangement to lock-in the losses during the process of unwinding the positions, and elimination of this long and hedge position is expected to be completed over time.

Q11.	Regarding total payout ratio, in your disclosure last May, you stated that “total payout ratio to be raised to 40% over the medium term,” based on which I assumed a timeframe of around 5 years. However, capital policy on P30 states that your target for FY2019 is 40%. May I understand that your goal has been brought forward slightly? Also, what is the impact to shareholder return should there be one-time profits in the future?
A11.	The reason for planning a payout ratio of 40% for FY2019 is our strong commitment towards shareholder return, together with the favorable near-term outlook emanating from robust results of our first year of the Midterm Plan and expected profit growth for FY2018. Basically, we do not envisage one-time earnings to impact shareholder return.

Q12.	The group is considering a dividend payout of ¥35bn from its subsidiaries to the parent in FY2018 to raise capital efficiency, but how is this expected to improve efficiency? Also, is this kind of dividend payout from subsidiaries expected to happen continuously in the future?
A12.	After reviewing the capital position of our group companies, dividend payout to the parent was decided as we concluded that there was excess capital accumulated in some companies that could be utilized more efficiently by redistributing it to other companies. The dividend this time was ¥35bn, which was substantial as we reviewed the capital accumulated. While this might not be the only instance, any future dividend payout is expected to be on a smaller scale.

Q13.	Please let us know your views regarding profit forecast for FY2018 and 2019. Looking at the results for FY2017 by each business, Wholesale Financial Services, Real Estate and Stock Transfer Agency businesses recorded profit growth and Global Markets' plan was restrained, as a result of which I have the impression that these businesses should be able to meet their targets. The two areas where I have concerns are Retail Total Solutions business which recorded a profit decrease and overshooting of expenses. How do you view the certainty of meeting the targets in light of these issues?
A13.	Each business managed to meet expectations for FY2017, but Retail Total Solutions profit decrease was mainly caused by very slow insurance sales during the first half. I am expecting substantial growth for FY2018 and FY2019, and though some impact from market conditions is unavoidable, I would like to see the business expand its client base leading to increased balances which would result in increase of stable recurring income, coupled together with boost in insurance sales through introduction of new products co-developed with Cardif. Regarding expenses, we are pursuing various ideas such as integration of office buildings and release of leased properties to reduce expenses of the whole group. There are forward looking investments to reduce future cost, but we would like to see what could be done to boost our topline and have a more detailed analysis to manage expenses.

Q14.	On P23, you plan to increase product related credits to 49% of the foreign currency portfolio by 2019/3. How do you intend to manage its risk should there be a shock to the economy?
A14.	Our credit portfolio is managed with avoidance of concentration risk and diversification in mind. For example, unsecured long-term exposure to emerging markets is 0.3% of the total portfolio which is very restrained. Also, for project finance exposures, around 30% of the portfolio has a sovereign guarantee, others have long-term agreements with creditworthy off-takers and we remain vigilant about the soundness of the portfolio.

<u>Cautionary Statement regarding Forward-Looking Statements</u>

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