

Investor Meeting on Financial Results for 1HFY2020 (November 18, 2020) Q&A

Q1.	Please explain the backdrop to what lead to addressing structural reforms of operational processes / channels / cost with such speed. I would like to learn your awareness of issues and discussions that took place internally.
A1.	<p>I believe that the most recent business environment under the COVID-19 turmoil is in general considered to be challenging times, but I rather interpret this as a situation developing into an environment that will lead to growth opportunities for our group. With growing social and economic uncertainties, client needs for individualized approaches are increasingly in demand, centered around individual clients.</p> <p>Further, due to advances in digitalization, there is a rising trend where people want even quicker provision of solutions as well as changes such as easier access to consultations with the spread of on-line means. These developments are acting as a strong tailwind for all the initiatives we had been working on to date which showcase our strengths as a specialized trust bank.</p> <p>Within such context, we have been debating on how we should rebuild our sales channels to focus on specific client segments such as the “Seniors”, “High Net Worth”, “Work place clients” as well as on how to differentiate ourselves and grow by being “agile” and “multi-functional” compared to mega banks that base their business model on the enormous branch network and product line-up. As a part of this, we decided to accelerate and materialize our measures by centering our focus on optimizing sales channel for our individual clients.</p>

Q2.	Of the 3 strategies, I would like to learn what has evolved compared to before along with the outlook of offering “trust capabilities” to regional financial institutions and others. For example, can you envision becoming a company providing specialized M&A functions by leveraging trust capabilities?
A2.	<p>We have traditionally been establishing alliances in many numbers as well as in depth with regional financial institutions. And the direction of this strategy will not change significantly.</p> <p>However, the needs for trust related products and services of the regional financial institutions are increasing.</p> <p>Provision of asset administration type of products is growing due to progression of ageing in provincial areas and there are multiple deals in progress such as responding to voices asking for development and provision of unique products based on our products</p> <p>We are also planning to further expand win-win relationships through alliances for growing individual client sales channels.</p> <p>Though M&amp;A function is also one important capability, we have no plans on expanding this area through inorganic means.</p>

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Q3.	This is a question on risk weighted asset control as mentioned on page 48. I get an impression that your risk weighted assets have increased in a more straight-forward manner compared to other banks under the most recent developments in the environment. Is there something you can do to reduce this in the near term?
A3.	<p>Risk weighted assets increased by approximately 650 billion yen compared to the end of March 2020. The reasons for the increase in credit risk assets are due to increase of COVID-19 related lending and rising of the hedge position of bear-type investment trusts held for hedging against strategic shareholdings. However, COVID-19 related lending is starting to calm down.</p> <p>We intend to reduce bear-type investment trusts by surely continuing the sale of strategic shareholdings though it will require some time.</p> <p>Further, we are continuing to consider and are working on securitizing credits as a rather shorter-term initiative.</p> <p>Approximately 500-600 billion yen's worth of corporate credits have been securitized as a credit securitization process for the 1H.</p> <p>This figure includes some amount of securitization on a flow-base at the sourcing stage. However, some securitization on a stock-base has been executed for risk weighted asset control purposes and thus is generally proceeding as planned.</p> <p>Though securitization of residential mortgage loan credits is a bit behind, we will control risk weighted assets by enhancing our initiatives both for individuals / wholesale assets in the 2H.</p>

Q4.	You mentioned that you are not assuming a share repurchase in FY2020. Please explain the reason along with what conditions need to be in place for share repurchases to take place in the future.
A4.	<p>The first reason is that we are steering the wheel to focus more on dividend payout. Another reason would be that we are being cautious with elevating uncertainties of the business environment going into FY2021 due to impacts from COVID-19.</p> <p>We intend to consider repurchasing shares should unexpected factors such as those we are most recently seeing cease together with monitoring capital sufficiency and stock price levels.</p>

Q5.	I get an impression that there is a gap between actual 1H results and the 2H plans when looking at the full year forecast for FY2020 on page 101 in the material. Please explain why you reached such a forecast including what you are seeing today in each of the business lines.
A5.	<p>Despite the impact from COVID-19 shock in the 1H, big ticket deals in the global markets business and wholesale business contributed to better than expected earnings.</p> <p style="text-align: right;">(Continued to the next page)</p>

	<p>However, we expect impact on the investment management consulting areas and others to continue for a considerable amount of time. Therefore, the forecast for the 2H is based on an understanding that it will be difficult to gain revenue in a constant manner, as was in the 1H.</p> <p>To add, this is not from any specific assumptions of profitability decline factors from business management, etc.</p> <p>The spreading of COVID-19 we are recently seeing again is an element of concern and as a result, we do recognize the plan became more cautious. Though we cannot say anything certain at this juncture, we understand the figures are rather conservative when comparing to circumstances in the 1H.</p>
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Q6.	<p>Would it be correct to understand that the issue on tallying of voting rights exercise forms has now concluded?</p> <p>Are there any possibilities of negative factors arising going forward including guidance etc. from the regulators?</p>
A6.	<p>We are extremely sorry for the significant inconveniences and anxieties caused due to this issue.</p> <p>We are currently conducting explanatory sessions for the clients and working to finalize details on measures for preventing recurrence.</p> <p>Based on how the explanatory sessions are proceeding, there are no client companies that have alluded on an intent to reconsider business with us due to this issue. We will continue to meticulously work on the requests and tasks we have received from some client companies.</p> <p>We are not in any way in a position to comment on business improvement orders etc., but we are engaging in solid communication with the JFSA.</p>

Q7.	<p>Due to the stable supply coming from FRB and others, I think it is increasingly difficult to gain profit attributable to deployment of surplus foreign currency funds as in the past. The investment section of the Global markets business made up for this shortcoming in 1HFY2020 but what is the outlook for the 2H? Will you be increasingly dependent on the investment section for profitability?</p>
A7.	<p>As explained to date, profit attributable to deployment of surplus foreign currency funds have a tendency of being impacted by market action of basis swap cost etc., and thus are acknowledged as opportunistic profits.</p> <p>Under the current market environment, though it is contributing a certain extent by trade-offs with CCS funding cost reduction, yet since it was difficult to generate profitability of past levels, the 1H resulted in decreased profits.</p> <p>On the other hand, it is true that the investment section did well in the 1H, but we are not operating under placing excess expectation in this area. Our basic policy is to reinforce business with clients for generating profits.</p> <p style="text-align: right;">(Continued to the next page)</p>

	<p>However, profit attributable to deployment of surplus foreign currency funds will not go to zero and a certain level of profits are expected. But we are not assuming strong recovery.</p>
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Q8.	<p>It was explained that the special loan loss provisions posted in the previous fiscal year will be reversed at the end of September 2021 based on assumptions that the spread of COVID-19 will cease within FY2020. Is there a possibility that the reversal will be delayed due to the most recent COVID-19 situations?</p> <p>Further, SuMi TRUST Bank and Sumitomo Mitsui Trust Panasonic Finance Co., Ltd. are independently posting special loan loss provisions. Can SuMi TRUST Bank use SuMi TRUST Panasonic Finance's unused portion if such instances arise?</p>
A8.	<p>There is an impression that occurrence of credit costs is delayed from original projections in light of the 1H developments. Yet, for the time being, we are currently considering the end of September 2021 as the reversal timing for special loan loss provisions if they remain unused.</p> <p>However, should COVID-19 impact and uncertainties linger for longer, we will address future credit risks in a suitable manner by accounting for measures including forward looking reserve methods.</p> <p>Unused portions of special loan loss provisions of SuMi TRUST Bank and SuMi TRUST Panasonic Finance cannot be used by the other party.</p>

Q9.	<p>You are discussing on-line consulting and others on page 8 of the material. Are you seeing a difference in the rate of contract conclusions between physical face-to-face and on-line consultations?</p>
A9.	<p>Though an apple to apple comparison is difficult in terms of the rate of contract conclusions, we understand that there are no notable differences in the rate of contract conclusions for individual clients. We observed in the 1H that there were more cases of on-line consulting usage among asset formation generation clients that are accustomed to using digital devices.</p> <p>However, we believe high quality consulting capabilities of our group is being offered regardless of whether it is through on-line means or physical branch visits.</p> <p>Next, as for corporate clients in real estate brokerage. Since the counterparties are accustomed to on-line negotiations, here as well, we observe no notable differences in the rate of contract conclusions.</p> <p>As for overseas investors considering inbound investments, since they are unable to conduct on-site visits to physically look at the properties, we are seeing cases where contract conclusion through on-line means only are understandably proving difficult. However, since their interest in the Japanese real estate market remains strong, we are working on measures to respond to these investors' appetite.</p>

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Q10.	Are there any strategy changes for inorganic growth of asset management business overseas due to the COVID-19 turmoil?
A10.	<p>There are no significant changes to our thinking. We continue to be cautious towards audacious investments requiring selection and concentration such as 100% acquisition of large-scale asset management companies or making equity investments for acquiring majority stake.</p> <p>On the other hand, the need for taking on more overseas investment products and assets is growing under the expanding low interest rate environment. We are proactively considering enhancing / expanding networks with overseas asset management companies particularly through Nikko Asset management.</p> <p>We are considering deals in concrete terms for deepening relationships not only through simple alliances but also through partial equity investments.</p>
Q11.	You explained that the activities under the alliance with UBS securities were heavily restricted in the 1H of FY2020 due to COVID-19. Do you have any updates on the future outlook?
A11.	<p>The marketing JV company (UBS SuMi TRUST Wealth Advisory Co., Ltd.) launched its operations in the beginning of the year and was ready to start full-fledged activities when COVID-19 hit. Therefore, we were barely able to have face-to face contacts.</p> <p>However, we are seeing larger than expected needs for real estate centering around profitable investment properties.</p> <p>We are discussing in concrete terms on the activities for the to be newly established securities company next year in finding ways to identifying client needs assuming that impacts from COVID-19 turmoil will continue.</p>
Q12.	If COVID-19 again spreads further, how will that impact the non-interest income of each business line? Will it be correct to assume that it will have larger impact on mainly investment consulting and real estate brokerage for individual clients while the impact on real estate brokerage for corporate clients will be smaller?
A12.	<p>Your understanding is correct in that we expect impact on fee from sales of investment trusts / insurance to individual clients will linger. However, there are other impact factors not just limited to COVID-19.</p> <p>Impact on real estate brokerage to corporate clients is expected to be smaller since clients are accustomed to on-line correspondence. Deal opportunities are also ramping up to levels approximately double of last year. Though deal demand in retail real estate brokerage remains strong, the inability to meet clients in person does become an impediment to revenue for business with individual clients.</p>

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Q13.	<p>What are the developments with SBI Sumishin Net Bank's IPO after previous media exposures?</p> <p>Further, what are your thoughts on the "parent-child listings" issue?</p>
A13.	<p>We are continuing the consideration under a deliberation group that has been set up within SBI Sumishin Net Bank.</p> <p>Nothing has been decided at this point. However, we acknowledge that the "parent-child listings" issue and valuation are important factors and will continue concrete discussions among the three parties including both parent companies.</p> <p>We acknowledge the "parent-child listings" issue as a critical theme for the deliberation process.</p>

Q14.	<p>How much head count reduction are you considering in the context of operational process reform? What is the scope of the reform since you have not just branch administrations but also administration centers and others?</p> <p>Further, I believe you are using main frame for systems. Would this be a hindrance to the reform?</p>
A14.	<p>Since the client needs for our variety of specialized operations are high, we are not considering any proactive headcount reductions.</p> <p>However, even if we account for the extended retirement age currently under consideration, due to considerable amount of natural personnel reduction resulting from the retirement of the massive recruitment generation, even if we were to continue recruiting at current levels, we estimate that there will be a decrease of approximately 500 to 700 employees 5 years from now.</p> <p>With the growing needs for consulting and the need to deploy talent into areas that will grow in the future, we will shift personnel mainly in the Retail total solution services business into areas such as on-line consulting or work place within the same business line or reallocate optimally into other growth areas.</p> <p>There are possibilities of personnel reduction due to digitalization and others among affiliated companies that mainly offer administrative services, but details are yet to be decided.</p> <p>As to main frame, we are already working on reforms such as shifting information related and decentralized type systems to a cloud environment, transferring terminals used in the branches to host-linked mobile tablets. Therefore, we do not expect any major impediments.</p>

Q15.	<p>What assets and what level of volume are you assuming for securitization of credits in reducing the risk weighted assets described on page 47 in the material?</p>
A15.	<p>The assets under consideration for credit securitization are broad spanning from residential mortgages to various wholesale related loan assets.</p> <p style="text-align: right;">(Continued to the next page)</p>

	We are engaging in origination and distribution businesses centering around wholesale related assets in the wholesale asset management business area. There is an increasing interest centering around financial institutions on assets that we hold. Therefore, we are considering schemes to systematically and smoothly securitize such assets in addition to simply transferring assets to other financial institutions on a primary base.
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Q16.	If you are making calculations under the stress scenario that BOJ is conducting in the Financial System Report for CET 1 ratio, please share those figures.
A16.	Our group is also making calculations under scenarios close to the various assumptions in BOJ's Financial System Report. We have been able to confirm that a certain level of buffer can be secured while maintaining regulatory requirement levels under both the current standard as well as the finalized Basel III basis. Moreover, we believe there is room for further fine-tuning of ways to stress test and acknowledge this as one of the important challenges for the 2H.

#### Notes on the outlook

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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