

Investor Meeting on Financial Results for FY2020 (May 21, 2021) Questions and Answers

Q.1	<p>The new management’s visions along with important business initiatives were announced most recently. I understood that the pursuit of approaches unique to a trust bank and the new policy regarding strategic shareholdings (*) that was discussed then were in-depth, which will help fine tune the traditional trust business model.</p> <p>I would assume there must have been intense discussions taking place internally and perhaps in some cases resistance noted. I would like to learn about your thoughts as the president surrounding how you reached these decisions and your conviction towards materializing the initiatives.</p>
A.1	<p>The outcomes are a result of the series of internal discussions as well as various considerations I personally gave from various viewpoints.</p> <p>Our strengths as a trust bank group have been discussed to a large extent to date and we are hoisting the motto of “Balanced creation of both social value and economic value” in our Medium-Term Management Plan. Further, as mentioned in my presentation, I strongly wish to somehow generate a virtuous cycle of funds/assets/capital in the capital markets.</p> <p>Moreover, I strongly acknowledge that trust from the clients is the very source of our business. I believe that trust schemes are asked to offer high operational quality that responds to clients’ expectations that are datelined out of clients’ trust and cannot be fully prescribed through a contract alone. Based on my strong conviction that improving operational quality is of utmost importance, we decided to hoist this as the first important business initiative. Operations typical of a human touch that cannot be replaced by digital approaches is an extremely important element to operational quality in the context of a trust scheme.</p> <p>As to accelerating businesses that are unique to a trust bank group, I consider “generating cycles” to be the key word. Retail clients will experience cycles of funds and assets as the generation shifts from one to the next. Further, for company owners that have many high-net-worth transactions, despite Japan being said to have many companies with centennial history, the fact is that generation changes are taking place at an approximately 30-year cycle meaning that various types of cycles are being generated. Further, business transactions with companies are also expected to see replacing of facilities and investments in order to adapt to the new era aiming to achieve carbon neutrality going forward. We hope to play the role of connecting the investors to help generate funds, assets and capital into such areas. By focusing on helping “generate cycles” as described, our business will also enjoy a sustainable growth by engaging in the many different aspects of such cycles.</p> <p>Our new policy on strategic shareholdings is described as the third item under the important business initiatives and we are continuing various discussions internally. We have been working to reduce our strategic shareholdings for more than two decades. However, strategic shareholdings that we still have with clients are, in most cases, where engaging in dialogue was difficult or where shareholdings were already at the minimum levels requested by the clients for us to hold. Though discussions on how to address such clients in light of the relationship we have with them in terms of how to proceed or if we can engage to begin with tends to go round and round in circles, but these discussions need to be continued from here on as well. (Continued to the next page)</p>

	<p>On the other hand, internal discussions showed logical developments regarding capital markets and or corporate governance matters and consensus among many team members was reached at an earlier stage.</p> <p>There are three reasons and backdrops to why we came to announce the new policy. The first is that we place extreme importance on how we can contribute to supporting the increasingly important virtuous cycles in the capital markets where achievement of carbon neutrality that I mentioned before will be required. The second is, with the progress of corporate governance, corporate clients are gaining better understanding of corporate governance and working to advance their own corporate governance. And as such, we judged that the base for gaining their understanding of our policy was in place. The third is based on our understanding that we need to further seek capital efficiency as I noted in my presentation. We decided to make this announcement at this juncture as a result of comprehensively considering these factors.</p>
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(*) Policy of “In principle, we shall not hold any “strategic shareholdings as a conventional stable shareholder”

(Details available in the press release “Notice regarding the Sumitomo Mitsui Trust Group’s Vision under the New Management and Important Business Initiatives for FY2021” announced on May 13, 2021.)

Hereinafter referred to as “The new policy regarding strategic shareholdings” or “The new policy”.

Q.2	<p>Please share your thoughts as president on what type of investment values and advantages will be made available to the investors such as increased profitability, ROE, reduced revenue volatility, accelerated growth, enhanced shareholder returns as a result of pursuing the vision of being unique to a trust bank group and capital light.</p>
A.2	<p>There are two points that I hope to focus on.</p> <p>One is to engage by being obsessive about ROE as the key word.</p> <p>The second is that we need to work on initiatives where we can be further supportive of the society in the asset management / administration areas for us to leverage the strength of trust. And in doing so, I intend to be obsessive about increasing the portion of fee income.</p> <p>I intend to advance a capital light business management by boosting ROE and the portion of fee income for the investors to have a solid sense of things being done which I believe are what the investors are expecting as well.</p>

Q.3	<p>What balance across share buy-back and investing into inorganic growth strategies do you have in mind regarding the use of surplus capital generated from sales of strategic shareholdings?</p> <p>Particularly for inorganic strategies, you mentioned that investments for sowing the seeds for growth will be made more proactively compared to the past. Please share your thoughts as president on the sense of scale, areas of business, and geographical areas.</p>
A.3	<p>Though we will accelerate the reduction of strategic shareholdings, it is easily assumed that there will be cases where things will not go as smoothly as hoped, and as a result require a longer time horizon.</p>

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As to inorganic strategies, we will make optimal investments accounting for timing and focus in areas that have promising sustainable growth prospects to reap the benefits in the form of increased portion of fee income in the future. Areas of interest are those that help increase fee income as well as areas that support solving challenges of the society.

Moving on to the trust business area. Domestically, we intend to place focus on areas that support clients where inheritances will increase owing to an aging society as well as lead to growing our revenue. Investing is expected to grow. As such, we intend to meticulously study areas we believe can leverage our group's strengths. Yet depending on the developments, we will also consider share buybacks as a way of using our capital.

Q.4	<p>If you are to maintain the net income goal of 190bn yen in FY 2022, dividend per share calculated with a payout ratio of 40% will be 200~210yen, meaning a significantly increased dividend payment.</p> <p>If so, dividend increase could have been more than the 10yen increase in FY 2021. So why did you not increase more in 2021?</p> <p>Further, please confirm the level of your commitment to the 190bn yen net income target.</p>
A.4	<p>The FY 2022 net income target of 190bn yen is maintaining our Medium-Term Management Plan. To be honest, impact from COVID-19 shock is still lingering to an extent.</p> <p>The negative 30bn yen COVID-19 impact we were assuming for FY 2020 at the beginning of the term was limited to 18bn yen. However, the impacts are lingering into FY 2021 and beyond.</p> <p>Therefore, a certain level of uncertainty regarding profitability remains.</p> <p>On the other hand, investment trust sales and real estate brokerage that saw the most challenges in the 1st quarter of the previous fiscal year are showing significant recovery from the 3rd quarter and on. And since it depends on how we can develop these areas from here, we have kept our FY 2022 target of 190bn yen at this stage. Outlook for FY 2021 is somewhat conservative in areas such as total credit costs and expenses. However, coupled together with the uncertainties previously noted, I believe the levels are reasonable.</p> <p>Either way, I am mindful of the 40% consolidated payout ratio goal for our shareholder return policy and intend to be in alignment with this policy even if profits go upwards.</p>

Q.5	<p>Please share with us the responses from your corporate clients, considering that it has been more than a week since you announced the new policy on strategic shareholdings.</p>
A.5	<p>To be honest, reactions of corporate clients vary.</p> <p>The information reported to me tends to be the cases that are proving rather difficult. On the other hand, there are cases where we have been able to start dialogue with clients that previously did not engage in discussions with this new policy announcement as the trigger and is leading to discussing a roadmap for reducing to zero in essence.</p>

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Q.6	<p>I would like to ask about the communications regarding the sale of strategic shareholdings. Is it correct to understand that your approach has changed from the traditional language of “Can you allow us to sell?” to “Since we will be selling, please let us consult with you on how best to sell.” from here and on? In other words, is it correct that you will be shifting to negotiating the method of sale?</p> <p>Please let me confirm since your explanation that you will “proceed by gaining client consent” could, on the other hand, mean for the corporate clients that “you will not be selling if they do not agree”.</p>
A.6	<p>We will not move to deliberating/negotiating on the assumption of sale in haste. Enough time will be spent to gain understanding of our group’s policy and sales will not be made without the consent of our corporate clients.</p> <p>Traditionally, there was an element of strategic shareholdings acting as a sign of trust between our corporate clients and ourselves. The corporate clients also have the intent to maintain relations with our group based on trust to continue advancing their businesses sustainably.</p> <p>Building new and deeper relations based on trust will become extremely important. Therefore, we hope to make progress by mutually coming up with various ideas. We will listen to our corporate clients’ needs in building new and deeper relations based on trust by not only developing continuing transactional relations by leveraging our expertise capabilities in the products/services areas but also consider sustainable finance in the context of decarbonization and in cases engagements in preferred shares/subordinate loans and others.</p>
Q.7	<p>This is on the assumptions for FY 2022.</p> <p>Calculations show that a simple average of 70~80bn yen gains on sales of stocks per year will be generated across the next two years. Even if you were to use the proceeds to improve the cost of hedged positions in FY 2021, can we expect gains/losses on stocks in FY 2022? Or would the improvements to cost of hedged positions continue into FY 2022?</p> <p>Further, if 190bn yen net income is achieved and the payout ratio is 40%, then dividend per share will be 200yen. This will be a significant dividend increase compared to FY 2021. Would it be correct to understand that even so, you will go with that increase? In the diagram on the page discussing this topic in your presentation material, it does not appear to show to the extent of 40yen dividend increase, please clarify this as well.</p>
A.7	<p>First, I will explain about the operations conducted in FY 2020 to improve the cost of hedged positions.</p> <p>The stock market continued to rise significantly from the beginning of the term in the previous fiscal year and as such, unrealized gains/losses of strategic shareholdings and hedge transactions widened respectively.</p> <p>The purpose of hedging is to avoid damage to our capital and is functioning well from this perspective. However, we judged that improving the cost of hedged positions will be necessary when unrealized gains/losses widen to a certain extent when accounting for operational ease in the future, and thus conducted the operation.</p> <p style="text-align: right;">(Continued to the next page)</p>

	<p>We hope to discontinue the operation of improving the cost of hedged positions as a measure in FY 2021. Yet on the other hand, unrealized gains/losses can widen/contract depending on the market. Therefore, we will act based on monitoring of the stock market. As a result, if we observe that enough was done to improve the cost of hedged positions in FY 2021, easier controls will be in place and FY 2022 should generate solid profits (from gains on sales of stocks).</p> <p>Further, as to dividend per share, though the diagram describes as noted, we are working to raise the payout ratio to 40% and this remains unchanged.</p>
Q.8	<p>Stock markets and real estate markets rose due to excessively liquid markets globally from the end of last year into the beginning of this year. On the other hand, the slowing of stock price rise and signs of declines are most recently noted. Yet even under such circumstances, do you observe that there will be no significant change to the global excess liquidity environment?</p>
A.8	<p>I don't think this situation will change with small events since excess liquidity has been advancing across a longer time horizon. Regarding the stock market and real estate markets, the basic environment of funds continuing to generate cycles in areas that investors feel are relatively safe, also remain unchanged. However, close monitoring of the changes in sentiment is required since markets move based on multiple factors such as geopolitical perspectives and others.</p>
Q.9	<p>You have announced the new policy for reducing strategic shareholdings. But if you had to retract this policy, what would be the possible reasons? Further, you mentioned a reduction of 100bn yen in purchase cost terms across the next two years. Is there possibility that this pace will slow down beyond FY 2023?</p>
A.9	<p>Our opinions internally are in full alignment and have no intention of retracting the announced policy. Of course, it will be a different story if a retraction is asked for from some societal reasons, but I don't see any point in discussing a hypothetical scenario at this point in time.</p> <p>We determined the target amount of reduction to aim for during the Medium-Term Management Plan period under the posture of accelerating the pace of reduction compared to the past for the next two years that are in the Medium-Term Management Plan period. The speed beyond FY 2023 should be subject to change based on how the surrounding environment including our corporate clients, other financial institutions, investors change with the declaration we made this time. We intend to advance various initiatives that enable acceleration.</p>
Q.10	<p>Though you have declared to achieve zero CO2 emissions by 2050 regarding decarbonization, is it correct to understand that Scope 3 (investment/lending portfolios) is not included? Further, I would like to learn your thoughts and roadmap if you were to include Scope 3.</p>
A.10	<p>We are showing just our own group's decarbonization initiatives in the material. A dedicated project team has been set up to consider and work out details regarding Scope 3, the phase for gathering and disclosing clients' data.</p>

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Q.11	<p>You noted that legacy cost reduction will be expanded to 20bn yen this time. Though there is an element of acceleration that was triggered by the spread of COVID-19, the original reduction target of 10bn yen appears to have been low to begin with in comparison to the total expense base. Further, based on the explanation that front forwarding depreciation of fixed assets was a factor to the increase in reduction amount, it seems that this is more a financial response rather than a genuine operational efficiency initiative. Though I believe cost efficiency has been accelerated under the COVID-19 turmoil, is there room to further increase the amount of legacy cost reduction from here and on?</p>
A.11	<p>I believe there were areas where we were able to further reduce costs, triggered by the spread of COVID-19.</p> <p>For example, we conducted inspections on the operational processes that exist as a series of processes that are connected from asset management companies in the group (SuMi TRUST Asset Management and Nikko Asset Management) to SuMi TRUST Bank, and then further to Custody Bank of Japan and overseas subsidiaries to ensure stable operations in the asset management / administration areas. Such inspections gave us hints for cost reduction.</p> <p>Further, shift to paperless is advancing both domestically and overseas in areas such as documents received from clients, internal documents, reports submitted to clients and others. Time will be required since system developments will be necessary as well, yet these are opportunities that will result in future cost reductions. Though we are not ready to present details since things are not yet concrete, opportunities for further reduction are available. Some investments may be required, but we believe there is a considerable amount of reduction that can be expected.</p>
Q.12	<p>I think that for your group that enjoys a top position as an asset manager to be making the announcement to reduce strategic shareholdings as you did this time carries an extremely strong significance for the capital markets overall. What impact do you think the reduction of 100bn yen in purchase cost terms across the next two years will have on the capital markets?</p> <p>Further, please explain the backdrop to and reasons for why you thought such reduction scale can be achieved. Was it because the pace of reduction to this point had been slow so there was more room for reduction? Or was it more because you are not positioned as quasi-main bank from a corporate finance perspective and as such you were able to move faster? I would also like to know if your group's initiatives would make it easier for the main banks, meaning mega banks to take action in the future.</p>
A.12	<p>There is much press and others showing that the first impression of the receptions by the overall capital markets was positive. How each of the corporate clients will consider this is yet to be known.</p> <p>However, we need to engage by proposing various ways we can support the clients by well understanding the corporate clients' thinking since approaches to corporate governance widely vary across different companies. Therefore, we believe it will be critical to build deep relations based on trust with these corporate clients. As to what the mega banks will do, we will be monitoring the developments from here and on since details on their intent are currently unavailable.</p> <p style="text-align: right;">(Continued to the next page)</p>

	As to the backdrop on why we decided to shift to the New policy, in addition to contributing to generating virtuous cycles in the capital markets, despite our efforts in reducing strategic shareholdings for more than 20 years, the ratio of strategic shareholdings versus our equity capital is considerably high as a result of rising stock prices and others. Thus, there was an element of us acknowledging the challenges from a financial perspective.
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Q.13	This is on new growth areas. How do you see the status of differentiation compared to your peer group's PB business regarding the collaboration with UBS? Despite the delay to your revenue plan due to COVID-19, you had mentioned before that a certain level of achievements are being acknowledged. What is the status of mandates from clients?
A.13	Collaboration with UBS is moving ahead per the schedule but communication with clients is a bit behind due to COVID-19 impact. In the case of Japan, affluent clients invest not only in securities but also in real estate. Our group has enjoyed engaging with affluent clients through their investments into real estate which we believe is an area that can display uniqueness.

Q.14	As to new growth areas, you have set a long-term goal for sustainable finance regarding E (environment) in ESG. What is your outlook for this term as well as short term developments?
A.14	Environmental areas within ESG are also initiatives under a longer-term perspective. For example, in the area of Technology Based Finance, we are making developments by incorporating technical knowledge as well where we have recruited 6 researchers that have doctor's degrees. I believe we will be seeing achievements in the shorter term, but we hope to advance more the initiatives that lead to business growth from a longer-term perspective.

Forward-Looking Statements

This document includes notes on future earnings.

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