

IR Day (July 14, 2021) Questions and Answers

Page numbers in the Q&A correspond to the page numbers in each theme.

1. Accelerate Business unique to the trust bank group and Enhance/Sophisticate operational quality
(Respondent: Kazuya Oyama, President of SuMi TRUST Bank)

Q.1	<p>What type of enhanced corporate value and investment value will be available for investors when you materialize the strategies discussed in the presentation?</p> <p>Any detail such as structure or level of revenue/ profitability, or impact on volatility will be appreciated.</p>
A.1	<p>We had rather headed towards the direction of increasing recurring revenue by focusing on asset management and asset administration businesses as rolling out businesses that are unique to the TRUST bank group. However, assets such as equity and fixed income start from asset managers investing into these asset classes and thus our engagements tend to become more passive. The reason we decided to direct our attention to private assets is based on the idea that proactively offering the knowledge we have built through our banking business to investors will help grow market itself. Further, though there are voices saying we should shrink our banking business and focus on TRUST related businesses, if we were to assume that market size and our share will not change significantly going forward, revenue cannot be expected to grow much even if we were to continue specializing in the traditional TRUST related businesses. Thus, we decided to focus on private assets from a perspective of growing our revenue while using our capital efficiently.</p> <p>Our recent focus on the cycle of funds is based on the idea that we, as a trust bank, can leverage the unique ability to be involved in the cycle of funds in a variety of ways. This is from the perspective that if we can grow the overall market through the virtuous cycle of funds as opposed to grabbing shares in a zero-sum competition, our business should also grow significantly.</p> <p>Now, we are aware of the fact that SuMi TRUST's current ROE levels are lower compared to market expectations. We believe rolling out businesses without using our balance sheet will be possible through offering the knowledge we have built through our banking business to investors that will lead to further enhancing a capital light business and contribute to improve our ROE.</p>

Q.2	<p>The question is on business portfolio building discussed on the right of page 9. In building an adjustable business portfolio, you explained your intent to develop toward the direction on the right (expanding the customer base) of the diagram. I think this includes both organic and inorganic growth. I would like to know how you intend to use capital.</p>
A.2	<p>I will explain the details of our business portfolio strategy. First, on 'Commoditization of traditional businesses' on the left bottom of the diagram. Traditional banking businesses that have challenging profitability under the low interest environment and traditional TRUST scheme businesses that are constantly under downwards fee pressure despite the stable revenue base fall under this category.</p> <p style="text-align: right;">(Continue to the next page)</p> <p>Initiatives from the left bottom of the diagram heading to the top (increasing added-value) is the "Best partner strategy" that aims to boost clients' loyalty by offering improved added value to core clients. However, this alone will result in falling into innovation dilemmas and success traps.</p>

	<p>Therefore, we acknowledge that how we efficiently shift to the right-hand direction (expanding the customer base) will be our challenge.</p> <p>For example, in regard to the “Asset formation advisory, Work place”, it has been debated in-house to date that accessing to this client category under the traditional TRUST bank set up may be difficult. True, if we were to limit business within the context of Retail TS business, profitability and efficiency will remain low. Spinning-out is a possible option, however, if such path is chosen, the currently available resources such as people and systems etc. will become inaccessible.</p> <p>Therefore, we established a strategy where the pension business under the Fiduciary services business line is addressed cross- functionally and to target specific clients on the pension platform. We will not have enough resource if each business line were to shift to the right direction independently on the right-hand diagram. Therefore, we are discussing business areas we should make inroads into in the cross-functional business promotion meetings and starting to work on specific areas by establishing project teams on a pilot basis. The strategy here is that once we start seeing prospects of success through these pilots, we will appoint Executive officers as control towers to develop the businesses and commercialize at a certain point to head towards the right-hand side. Based on this strategy, we will enhance areas that can generate synergies across multiple business lines as growth areas and if working with only the currently available resources appear difficult, of course consider deploying capital for M&As and other options.</p> <p>To reiterate, our strategy is to grow both organically and inorganically by identifying areas that can strike synergetic effects that are close to existing areas of businesses. Cross-functional business approaches /business line integrations have been our strength to date. Yet, the current challenge is how to concurrently address resources that are squeezed out of commoditized business lines.</p>
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Q.3	<p>There is description in P.6 about expanding the provision of investment opportunities related to private assets. You explained the intent to expand the client base in the wealth management business. Please explain the potential AUM as well as assumed opportunities and challenges in expanding the base of offerings of private assets to retail clients.</p>
A.3	<p>We currently work under a business line structure. As such, we have been addressing clients and products under a vertically aligned structure. However, we intend to remove such vertically aligned thinking to expand the business from here and on.</p> <p>For example, we have an “Investor solution” under the Wholesale TS business line. Here, for example, we will break down walls between the business lines to offer private assets to not only corporate clients but also to retail clients. Through such cross functional approaches, we intend to connect investors and products regardless of the vertical or horizontal alignments.</p> <p style="text-align: right;">(Continue to the next page)</p> <p>We have to date been rolling out smaller lot offerings to regional financial institution and non-profit corporations by leveraging the “asset conversion function” available under the trust scheme offering. In advancing the recent collaboration with UBS, we have been able to confirm that the risk appetite of ultrahigh net worth clients is strong. Though we do not yet have a specific product available in the wealth management area at the moment, we intend to proactively work on this as the next focus.</p>

Q.4	What do you mean by trigger for “everyone to start moving at once” that is stated on P.1 regarding cycle of funds? Further, please explain which entity you assume will take the lead for this movement to start?
A.4	<p>We believe the (corporate/households/government) tripartite deadlock was the reason for the stagnation in the cycle of funds until now. With the recent movements for materializing a decarbonized society, we expect that the cycle of funds will be promoted. A considerable amount of funding needs for investments for a decarbonized society has been acknowledged through dialogue with our clients.</p> <p>On the other hand, under a globally low interest rate environment, financial institutions and investors are faced with investment challenges. Therefore, if the enormous capital expenditure investment needs of the business world and the investment needs of investors can be connected, it can trigger the move of a significant cycle of funds. This is the backdrop to us hoisting the materialization of generating the cycle of funds as the vision of our new management structure.</p>

Q.5	Based on the explanation in A.4 (refer to the above), does it mean that companies with investment needs will be the first movers?
A.5	<p>We think it will be both the corporates as well as investors.</p> <p>For example, pension money has a characteristic of not being able to invest unless enough track record is in place. Therefore, it is just recently that investments into private equity (PE) have finally started owing to our track record and know how built over the past 20 years.</p> <p>Though ESG money does not invest in just anything, we feel it has a nature of investing based on subjective views. In other words, we believe the challenge is to offer efficient allocation and risk diversification for such funds that are able to take on risks even without track record.</p>

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Q.6	<p>Please share more details on the business overview of how you intend to originate and distribute private asset offerings. What are your strengths and advantages when mega banks also have trust scheme capabilities?</p> <p>P.6 of the presentation says the total amount of project finance arrangements related to renewable energy in FY20 was 350 bn yen. Please also share the expected pace of growth in the future.</p>
A.6	<p>SuMi TRUST's track record in PE investments go back to about 20 years ago. Back then, there was not abundant availability of capital and was also difficult to make PE investments with heavy capital cost solely with our balance sheet. Therefore, we diversified the investments by enabling pension investors to invest at a scale of about 5 mil USD per deal. Our added value is the history of having engaged alongside with the investors across the long term in addition to the track record built and manager selection know how acquired throughout the process.</p> <p>Renewable energy financing used to be centered around solar and on-shore wind power generation. However, the recently mainstream biomass deals are about 50 bn yen per deal and 100 bn yen levels for off-shore wind power generation deals. Since the possible level of investments by ourselves is about 10 bn yen per deal when we are the deal arranger, the portion offered to investors will be larger as the scale of the deal amount increases.</p> <p>The most important point during the course of shifting assets from corporate loans to product related lending is to have the expertise to concurrently work on syndicated structures and investing alongside with investors to avoid concentration towards particular assets. In other words, just like both wheels in cars, enhancing both the expertise and distribution capabilities will be critical.</p> <p>The scale of arrangements from here and on will depend on when and how many off-shore wind power generation deals will emerge. Based on the government's policy for the future, we believe a considerable amount of deals should be coming to the table.</p> <p>Transitions for decarbonization among corporates is expected to be of considerable scale even just looking at the currently assumed deals. The 5 trn yen target by 2030 for sustainable finance that we have set is a level that is a pure extension of the most recent developments. Therefore, if the move for decarbonization were to change significantly going forward, we will likely need to reconsider this amount.</p>

Q.7	<p>Though expanding businesses for the work place client is the right thing to do, would there be negative impact from the reduction of strategic shareholdings that your group is advancing?</p>
A.7	<p>There are various responses from our clients regarding the reduction of strategic shareholdings that we are advancing. Some are concerned about future proxy voting while others are asking for commitments and risk taking that would act as an alternative to strategic shareholdings. From a risk-taking perspective, our clients are most challenged with how to address the decarbonization theme and we are hoping to display commitments that can be an alternative to strategic shareholdings in this space.</p> <p style="text-align: right;">(Continue to the next page)</p> <p>As part of other concerns that our corporate clients are facing, there are voices asking for governance related support mainly by Stock transfer agency business for G (Governance). Further for S (Social), necessity and importance of human capital is gaining attention under the COVID-19 turmoil and</p>

	<p>awareness that employees' asset formation accounting for their post retirement is a social responsibility is increasing.</p> <p>Under such developments, we received requests from clients to enhance work place services for clients' employees with dialogue for reducing strategic shareholdings acting as the trigger. As such, we hope to leverage our various capabilities to respond to such needs.</p>
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2. SuMi TRUST's Group governance

(Respondent: Shinichi Saito, Director (External director) of SuMi TRUST Holdings)

Q.1	<p>My understanding is that investors are frustrated since you are not advancing disclosure of numbers that act as the backdrop of business segment ROE. Do you feel that your current risk/return management framework to be sufficiently robust or do you think it carries challenges?</p>
A.1	<p>Unless risk/return is measured by segment in order to assess the status of the most recent earnings, growth investments including inorganic opportunities, capital efficiency and others, we cannot understand which portfolio should be shrunk or grown. Therefore, I am hoping to see advancements to SuMi TRUST's managerial accounting not only as the Chairperson of the Audit committee but as a Director as well.</p> <p>We are discussing at the BOD on the importance of disclosing the by segment real earnings capability to the extent possible and allocating capital based on it. I understand that the by segment disclosures have been advancing in light of the executive side also giving the matter serious consideration but also acknowledge that there is still room for improvement going forward. In addition, I am hopeful of SuMi TRUST being even more mindful of ROE than in the past from business profitability and efficient use of capital perspectives.</p> <p>Further, the matter of strategic shareholdings has been the most important capital agenda as the prerequisite to discuss ROE to date, and I consider the announcement by the new management to reduce strategic shareholdings to zero as an extremely important decision.</p> <p>To repeat, in addition to promoting the reduction of strategic shareholdings and advancing the capital agenda, further advancements of business segment ROE is critical from the perspective of understanding profitability by segment and proper understanding of capital efficiency, and I agree with what you have highlighted.</p>

Q.2	<p>I would like to ask about the discussions that took place at the BOD regarding the status of strategic shareholdings reduction.</p> <p>Further, I assume there were arguments inhouse for and against the reduction of strategic shareholdings to zero in principle. Yet, I would like to know how you were encouraged as an external director.</p> <p style="text-align: right;">(Continue to the next page)</p>
A.2	<p>Though certain levels of strategic shareholding reductions had been achieved under medium term plan, there was no doubt that further acceleration was needed compared to other banks. As such, various discussions had been taking place to date. Most recently, we have the need to address the capital agenda for allocating resources to the second and third lines under the three lines of defense mechanism in addition to investments for establishing a new business model.</p> <p>On the other hand, there are views that our businesses are being sustained because we have strategic</p>

	<p>shareholdings. However, in light of the fact that our clients are also facing challenges of efficient use of capital similar to us, we believe the timing for this decision was right. In addition, a policy to “advance reduction accordingly” will ultimately fall into an extension to the discussion of “can or cannot” reduce. Therefore, the bold policy decision to head toward zero, including how the new management will move this ahead should be an opportunity for other banks and clients to once again consider use of capital and I acknowledge this as an excellent decision from the eyes of an external director.</p>
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Q.3	I would like to ask about why a third-party committee was not engaged regarding inappropriate tallying of proxy voting matter.
A.3	<p>The main purpose of engaging a third-party committee is for securing independence, neutrality, and expertise. The investigation structure for this time involved external experts, excluded relevant individuals of the involved divisions from the executive side and was structured centering around the second lines and thus was determined to have sufficient objectivity, neutrality, and expertise in place. Further, we have confirmed that the status of progress and fact finding to be sufficient and have not suggested the necessity for a third-party committee.</p>

3. Regarding initiatives on Diversity and Inclusion

(Respondent: Hiroko Kawamoto, Director (External director) of SuMi TRUST Holdings)

Q.1	<p>Regarding page 4, is there a mechanism for reflecting the opinions and requests from employees to the D&I committee or the HR dept.? It was mentioned that a PDCA cycle was in operation. Please share an example of a case where details were discussed at the executive committee and actually executed.</p>
A.1	<p>Though we have not heard of operational details on the executive side, it is my understanding that employees’ opinions and requests regarding D&I that were understood through the annual awareness survey and interviews etc. have been reported and reflected in the committee.</p> <p>Discussions supportive of D&I promotion and initiatives relating to diversity of workstyles etc. talked about in the executive meetings are taking place at the BOD. To be descriptive, we have opined on the ways and reviews on evaluation systems and have gained responses from the executive side that they will solidly proceed working on these areas.</p> <p>And in the Nomination committee where I myself am a member, I have opined for initiatives relating to talent development and succession planning to be addressed with further speed and I feel that such comments have also been taken into account.</p> <p style="text-align: right;">(Continue to the next page)</p> <p>Overall, I have a solid sense that the executive side is sincerely responding to the external directors’ opinions.</p>

Q.2	<p>I would like to ask if the management’s compensation scheme is set in a way that is in line with the features of a TRUST bank and if there is room for improvement. Please include in the explanation whether it is striking a balance with the responsibilities that the management incurs, if it is sufficient in absolute amount, and also if the weight of equity-based pay in alignment with market expectations.</p>
A.2	<p>Even prior to my appointment as the Chairperson of the Compensation committee, there had been repeated discussions on how the directors’ and executive officers’ compensation scheme should be.</p>

The current ratio had been reached after discussions concluding that a scheme based on comprehensive assessment that reflects medium term business performance that places importance on the directors' and executive officers' qualities and capabilities as management that does not fall into a single fiscal year assessment placing importance on short-term earnings contribution needs to be developed. However, the current scheme is not absolute. Thus, considerations should continue from here and on including the theme on the ratio of the various components to the scheme.

There is a history of discussions having taken place on what the proportion of stock should be from short, medium perspectives for implementing share delivery trust. And the current portion is acknowledged to be suitable levels for now, but reviews should be made as necessary. We expect to continue these types of discussions from here and on as well.

As to your point on whether it is a scheme reflecting the uniqueness of a trust bank, we have developed this scheme suitable to our features by benchmarking peers as well as incorporating proposals from the executive side.

Similar to the Governance code, there is no complete form and we will continue studying and discussing. However, we acknowledge that the current proportions and levels to be appropriate.

Q.3 "Trust", "private banking", and "wealth management" where you are strong can be thought as areas with more potential for women's active engagements, yet I would like to understand why there are limited opportunities were SuMi TRUST is picked up as a D&I role model.

Further, I would like to know what type of influence you, Director Kawamoto are introducing and if you feel that they are working.

A.3 As you pointed out, I am reacknowledging that SuMi TRUST has many areas and work places that are very welcoming of women's active engagements. On the other hand, just as there are more women installed in business line managerial posts, I feel more women need to be installed in decision making roles. I observe that the backdrop to this situation is that though SuMi TRUST had committed to promoting active engagement of women, the level of seriousness and readiness was not enough.

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I have seen through examples of other banks, initiatives that promote development of a mechanism that help make it easier for women working in banks to make career moves to other banks, or initiatives with strong commitments/endorsements by a top management where activities pay attention to communication to the outside as well. It does not necessarily mean that SuMi TRUST's initiatives are in any way behind, but other banks are accelerating their initiatives and I believe there is still much that SuMi TRUST can do.

Moreover, we are aware of SuMi TRUST's weakness in messaging to the outside and thus hope SuMi TRUST will enhance appealing to the outside world by leveraging PR magazines and other various media.

As for my personal approach as an external director, I am boldly stating my hopes for SuMi TRUST to promote engagements with the outside world. Further, since the proportion of male members tend to be larger when coordinating training sessions and projects, I am communicating that they should

	intentionally include women in the membership. This is not intended to ask handicaps for women but since I feel it is important that more and diverse employees are given such opportunities, the same type of suggestions are being made by other outside board members.
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