

Investor Meeting on Financial Results for 1HFY2021 (November 18, 2021)

Questions and Answers

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| Q.1 | <p>Regarding the full-year forecast of Net income for FY2021 which was not revised. Compared to the strong performance in the first half of the fiscal year, some investors are concerned about the decision to leave the full-year Net income forecast unchanged.</p> <p>Is it correct to understand that the main reason for the decision to leave the forecast unchanged is that there will be a gap in the timing and amount between the loss on sales of hedging positions and the gain on sales of strategic shareholdings? Also, is it correct to assume that there are no other material uncertain factors? If Net income for the second half of the fiscal year were higher than expected, do you intend to increase the disposal of hedging positions in comparison to the current plan for this fiscal year?</p>  |
| A.1 | <p>First of all, we believe that we have achieved the level of Net business profit before credit costs ahead of schedule that we had targeted in the last year of our Medium-term management plan. We have revised our full-year forecast to 310 billion yen, and we are aiming to achieve even higher levels.</p> <p>Although we have maintained our forecast for credit costs, there are no specific causes for concern. We have made the decision considering the current polarization of corporate performance and the continued existence of uncertain factors such as the supply chain for semiconductors and other products and soaring energy and raw material prices.</p> <p>As for Net gains on stocks, we will proceed with the disposal of hedging transactions with low B/E. The hedge ratio will gradually decrease along with the progress in the divestment of strategic shareholdings.</p> <p>In May 2021, we declared that we shall reduce our strategic shareholdings to zero, and began dialogues with client companies. The dialogue with clients is progressing well as described in the presentation materials. The reduction of strategic shareholdings has started to progress, we are now able to visualize the clear path to a sounder hedging portfolio.</p> <p>In summary, we will accelerate our business activities with the aim to further enhance our Net business profit before credit costs. Continue to maintain an appropriate level of reserves for credit costs. Our medium-term challenge is to generate Net income without relying on gains on stocks as much as possible, and to achieve ROE of at least 8-9%.</p> <p>With regard to hedging transactions, risks will remain as stock price may fluctuate, but we have a plan not to carry-over excessive risks into FY 2022.</p> <p>There is a net unrealized gain of 450 billion yen on strategic shareholdings and hedging transactions combined. The difficulty of controlling profit and loss tends to increase as stock prices rise, but we have measures to mitigate the risk, because when stock prices rise, valuation gains on strategic shareholdings will increase along with losses on hedging transactions.</p> <p>There are no other uncertain factors other than the hedging transactions.</p> |

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| Q.2 | <p>With regard to the shareholder return policy, some investors are dissatisfied with the fact that shareholder returns have been left unchanged, considering the actions of other banks, since Net business profit before credit costs has been increased compared to the Medium-term management plan. I'm not merely asking whether you will or will not increase shareholders returns, rather, I would like you to provide your clear thoughts on shareholder return for the current and next fiscal year, taking the concerns of investors into account, while business performance is good and capital accumulation is satisfactory.</p>   |
| A.2 | <p>The company's shareholder return policy aiming for a dividend payout ratio of 40% remains unchanged. I think your concern is whether or not we will really implement share buybacks. The CET1 ratio is now 9.9% and assuming that we will continue to reduce strategic shareholdings, we can see the path for CET1 ratio to reach around 10.5%. In terms of capital accumulation, we are close to achieving our target, and recognize that the phase has changed. Since we have accumulated capital to a satisfactory level, we will make investments that contribute to the growth of businesses unique to a trust banking group and equity investments that contribute to solving social issues so that we can enjoy the fruits of these investments in the future. At the same time, we recognize that we have entered a phase in which we will constantly consider implementation of share buybacks.</p> |

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| Q.3 | <p>Is it correct to assume that strategic shareholdings (in P13) will be reduced to zero by the end of March 2030?</p> <p>Also, what do you envision in terms of the long-term allocation of capital freed up by the sale of strategic shareholdings, other than impact equity? Do you have any image of break down into M&amp;A, organic growth, and share buybacks?</p>  |
| A.3 | <p>Regarding to the schedule for the reduction of strategic shareholdings, when we started the initiative in May 2021, we set out a plan to divest shareholdings by 100 billion yen at cost basis over a two-year period, and then to reconsider the plan after two years of activities. However, since we have already declared the initiatives, we would like to achieve the zero target as soon as possible.</p> <p>We will use the capital freed up by strategic shareholding reduction to invest in businesses that contribute to the growth of businesses that are unique to a trust banking group and in equity that contribute to solve social issues, so that we can pursue sustainable growth of profit.</p> <p>In the summer of this year, all the executives convened and discussed our future business strategy back-casting from 2030. After the discussion, every group company and business line has been proceeding to formulate concrete plans as well as cross-companies or cross-business strategies. The discussion and progress have been reported to the Board of Directors.</p> <p>All the executives are working with a common understanding that we should aim for the share price level with a minimum PBR of 1.0x, and ROE of at least 8-9%. Based on this understanding, I am confident that specific ideas and strategies for the use of capital will emerge in the future, and I will announce them in the future.</p> <p>We also recognize that capital level has shifted to the next phase as capital accumulation progresses. The CET1 ratio is now 9.9%, and assuming that we continue to reduce our strategic shareholdings, we can see the path for CET1 ratio to reach 10.5% level. We would like to pursue a good balance between investments that will lead to new growth and share buybacks, taking the profits that will be posted each fiscal year and the proceeds from investments made to date into account.</p> |

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| Q.4 | I would like to ask about the short- to medium-term allocation of capital on the right side of P35. In light of the recent stock price reaction, what are your thoughts about the balance between strengthening returns to shareholders and investing in growth?  |
| A.4 | <p>Regarding investment for growth, we will consider our medium-term policy with the understanding of shareholders, investors and other stakeholders.</p> <p>On the other hand, with regard to share buybacks, we recognize that as we proceed with the divestment of our strategic shareholdings, our clients will also sell their holdings of our shares, and some of these shares have already been sold. We need to consider the supply and demand aspects of the sale of our shares. In addition, we launched a global share offering after repaying public funds in the past, but we have not repurchased shares in proportion to the offering. Taking these factors into consideration, we would like to implement a share buyback of a certain scale within a reasonable timeframe.</p> <p>When the outlook for the current fiscal year's performance becomes clearer, we would like to indicate what initiatives we will take in the current and next fiscal year.</p> |

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| Q.5 | Regarding the treatment of bear type investment trusts on P38. I understand that progress has been made for sounder hedging transactions, but how can we confirm this from the outside? Specifically, is it possible to disclose quantitative information such as the current impairment level and valuation loss ratio at the current level of the Nikkei 225 and TOPIX?   |
| A.5 | <p>Hedging portfolio is made of diversified bear type investment trusts, and we have repeated the operation of selling hedging transactions while divesting strategic shareholdings. It is difficult to disclose quantitatively, including details of individual investment trusts.</p> <p>In order to leave as little stock price risk as possible in the next fiscal year, we have set Net gains on stocks for the current fiscal year at minus 30 billion yen, and from this perspective, I hope you can understand our stance on making hedging transactions sound.</p> |

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| Q.6 | Regarding the hedging transactions on P38. As stated in the lower right-hand corner, why is the additional hedging portion to be reduced by the end of the next fiscal year? Also, please explain why the hedge ratio for base-portion, which was previously set at 65%, will not be set in the future.   |
| A.6 | <p>First of all, with regard to overall hedging transactions, we have dialogue with our clients regarding the divestment of strategic shareholdings, and even after we have gained consent, we sell shares carefully so that the share price would not fall. The situation is that we are adjusting our hedging positions accordingly on a case-by-case basis.</p> <p>One of the reasons for the additional portion of the hedge reduction schedule is that the Basel III finalization will be applied from the end of March 2023, and the treatment of risk weight will change significantly after that.</p> <p>As for the hedge ratio of the base portion, which was previously set at 65%, it is no longer necessary to set a certain target ratio since the hedge ratio will be reduced in line with the divestment of strategic shareholdings.</p> |

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| Q.7 | <p>Regarding the 500 billion yen of impact equity investment in decarbonization, climate change and infrastructure, etc. I understand that this is an equity investment, whereas the previously announced sustainable finance by 2030 was mainly debt. How should we understand the financial impact of these investments? Also, how do you evaluate your own capability, including your ability to analyze projects of large corporates and investments in start-ups?</p>  |
| A.7 | <p>With regard to the financial impact, the risk-weighted assets for the impact equity investments should be considered as part of the freed-up capital resulting from the reduction of strategic shareholdings. We will also reform our credit portfolio other than strategic shareholdings, but the RWA used for sustainable finance will be used less than the capital released from strategic shareholdings.</p> <p>Please note that the impact equity is intended to connect to our investor business, mainly asset management and asset administration, to increase fee income and improve our ROE. We would like to use this equity investment for decarbonization efforts in various regions in Japan, as well as for initiatives that contribute to solving other social issues. By making equity investments at an early stage, we will be able to envisage exit strategies for the equity investments in the process of advancing the social implementation of the various businesses in which we invest, and we will be able to play a central role in the businesses after implementation, creating further business opportunities. We hope that you will understand that this is the purpose of our investment.</p> <p>Our connoisseurship needs to be brushed up to keep up with as social needs change. We are hiring people with doctoral degrees having held research positions in laboratories of manufacturing companies, and we are planning to increase the number of such personnel in the future. At present, we are still in the process of developing our expertise. However, we have received many requests from companies, funds, and regional financial institutions to work together on impact assessment in positive impact finance. In these areas, we are aware that we are held in high esteem to a certain extent.</p> |

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| Q.8 | <p>Regarding Wealth Management on P28. I would like to know the update on your activities after the establishment of the new company. Also, the ROC for the investment is 9-10%, which is very good performance, but please tell us about your self-evaluation.</p>  |
| A.8 | <p>We started our marketing activities of the joint venture with UBS in the spring of last year, but due to the spread of COVID-19 infection, we were not able to hold seminars and other events, so we started more slowly than we had initially planned. However, in this type of business, the best way to achieve results is to steadily increase client base with word of mouth basis, so we are working on a variety of areas. For example, there are existing ultra-high net worth clients with whom we already had real estate investment and finance business, whom we introduced to the new company. Recently, there has been needs for owners of innovative companies to consult with the new company for their own asset management needs. In addition, the collaboration with Diners card is progressing relatively well.</p> <p>The pace at the start was slower than expected, so we would like to increase the speed going forward. I believe that the field of Ultra-High Net Worth is a promising area for the future. We would also like to provide the knowledge and skills gained from ultra-high net worth business to our clients in the high net worth client segment. In the broader field of wealth management, we hope to expand the knowledge and services gained from the activities of the new company to our own clients.</p> |

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| Q.9  | <p>I have two questions related to bear type investment trusts.</p> <p>At the beginning of the current fiscal year, I believe your plan was to avoid carrying-over as little risk as possible to the next fiscal year. Although it is an opinion based on hindsight, the unrealized loss on hedging positions in September was 364.2 billion yen, which was not a significant improvement from the beginning of the fiscal year.</p> <p>The company showed good performance in the first half of the year with high progress ratio against full year forecast, but was there an option to accelerate the disposal of hedging positions without posting the incremental profit?</p> <p>It is another hindsight-based argument, but since the Nikkei average for the period from May to August was in the range of 27,000 yen, you could have divested some bear-type investment with less costs. What is the background behind your choice to post higher profits for the first half of the year instead of disposal of hedging positions?</p>                     |
| A.9  | <p>As you understand, we aim to carry as little risk as possible to the next fiscal year. However, the stock market moves every day, so we need to be flexible in our operations of divestment of strategic shareholdings and sales of hedging transactions. Rather than removing hedges on the same day that we sell our strategic shareholdings, we make decisions flexibly on a case-by-case basis while keeping an eye on both. In the first half of the year, we posted a loss of nearly 20 billion yen for Net gains on stocks but we carried out our operations ahead of schedule.</p> <p>Regarding your suggestion for the question of whether more timely and better operations could have been executed, it may be true if we only look at the results. In hindsight, we may be able to create a case study to show what the best course of action would have been, but since we made decisions on a case-by-case basis in the midst of various day-to-day events, we have no choice but to ask you to evaluate the end results as our performance.</p> |
| Q.10 | <p>Assume your stock price is lagging behind that of other banks at the end of the 3Q. You may think it would be better to enhance shareholder returns, but if the Nikkei 225 is over 30,000 yen and the unrealized loss on bear-type investment trusts is increasing, which should be prioritized, either shareholder return or realization of unrealized losses?</p> <p>As was the case last year, unrealized gains on strategic shareholdings can be realized if stocks are sold on the premise of repurchase. I would like you to comment to the extent possible on what options are available in the 3Q, including such options.</p>   |
| A.10 | <p>We are currently considering various options for operations for the case when the stock price rises in the third quarter. One of the options is to sell and repurchase shares, which we did in the second half of last fiscal year.</p> <p>We are considering in advance what kind of operation we will choose, assuming various scenarios. If the stock price soars significantly, we will have to decide and work on one of the options based on the situation at that time.</p>   |

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| Q.11 | <p>Sumishin SBI Net Bank has applied to be listed on the stock exchange. I understand that it means the bank will move into a phase beyond traditional banking business and enhance business such as BaaS. What impact will this listing have on your business? Will there be synergies in the corporate business, or will you just gain profits from the equity invested in affiliates? In the area of individual clients, there could be overlap between the businesses of both you and the net bank, and there may be a variety of positive and negative impacts. How do you assess the impact?</p>   |
| A.11 | <p>It has been more than 10 years since the Net Bank was established. In the beginning, it was formulated as an Internet bank. We have been working on this project with various initiatives. Now, we are on the right track and have built up a customer base, profits, and capital.</p> <p>Times have changed, and the bank itself is working on its own business strategies, and along with that, it became a company that can govern themselves and stand on their own.</p> <p>In terms of business with us, the Net Bank's digital and IT initiatives have been quite informative to us and we have maintained a good relationship with them. They will continue to make good efforts such as NEOBANK, and we believe that this is an area where we can make use of them. We recognize that the time has come for us to focus our business on asset management and asset administration, while using the functions of the Net Bank for settlement operations.</p> <p>As for the business relationship, I believe that we will continue to utilize the best parts of each other.</p> |
| Q.12 | <p>We believe that capital will be released if Sumishin SBI Net Bank is listed. We would like to know whether freed up the capital will be used primarily to achieve the CET1 ratio of 10.5%, which is described as a target level as of the end of FY2022. Or alternatively, will it be used for new investments and shareholder returns, since CET1 ratio based on Basel3 finalization has reached almost 10%.</p>   |
| A.12 | <p>I can't disclose much about the matter including expected freed up capital since it is under the listing examination process.</p> <p>Speaking in general terms, when we have surplus capital, we will consider how to balance investments that contribute to business growth in a trust-related business, equity investments that help solve social issues, and share buybacks.</p>   |
| Q.13 | <p>Regarding the size of the carbon-neutral market, a figure of over 50 trillion yen by 2030 has been given. We are aware that this is demand for capital investment for replacement. We would like to know how much net funding needs will emerge and how much revenue is expected for the banking industry. Since we see that a certain amount of revenue would be generated related to this investment in the medium term.</p> <p>I would like to hear the business opportunities there.</p>  |
| A.13 | <p>The demand for carbon-neutral financing is very large, with a global scale of 1 quadrillion yen. If I talk about business opportunities there, to use impact equity as an example, if we use our capital for investment in promising areas at a certain early stage. And as the social implementation of the business progresses, we would start to mobilize investors' funds, and after the social implementation progresses, we would profit from turning the business into the fields of asset management and asset administration.</p> <p>In this sense, we will also engage in finance, but rather than accumulating debt, we will focus on asset management and asset administration, and work together with investors to develop this field.</p>   |

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| Q.14 | <p>I would like to ask you about sustainable finance and impact equity.</p> <p>How much sustainable finance has been implemented in the first half of 2021? I remember that the long-term target was 5 trillion yen in total and 3 trillion yen for the environment by 2030.</p> <p>I believe you also set targets in the areas of green, social, and ESG evaluation, and I would like to know how you are progressing toward these targets.</p> |
| A.14 | <p>In the first half of the year, we were involved in more than 300 billion yen of transactions, including arrangements, and we provided about 220 billion yen in financing.</p> <p>We have been involved in a wide range of areas. Major projects in the first half of the year were in the areas of project finance, ship finance, real estate, and energy.</p>  |

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| Q.15 | <p>How much dividend income do you expect to earn from the 1.4 trillion yen of strategic shareholdings? Also, how much dividend and capital gain do you expect to generate from the impact equity investment of 500 billion yen?</p> <p>When considering the area of impact equity from the perspective of risk associated with it, should we think of it as the same as ordinary stocks, or should we view it as speculative listed stocks?</p>   |
| A.15 | <p>We are considering various methods of impact equity investment. In the area of impact equity, we will invest in equity at the stage of innovation or until social implementation begins. As social implementation progresses, the equity investment itself will be exited, and external investors will be invited to participate in a larger scale financing. In the impact equity stage, we will pursue a reasonable return. As for the return of impact equity we are targeting different level of return from that of strategic shareholdings.</p> <p>The current dividend for strategi shareholdings is about 25 billion yen per year.</p> <p>In terms of whether impact equity is listed or unlisted, we think that it will mainly invest in unlisted stocks.</p> <p>We assume that there will be cases where the listing of shares is an exit strategy.</p> |

### Forward-Looking Statements

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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