

## IR Day (February 16, 2022) Questions and Answers

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

### 1. Retail total solution services business

(Respondent: Seiji Iwakuma, Executive Officer of SuMi TRUST Holdings)

Q.1	I would like to know how you intend to improve ROE and ROA of the balance sheet in terms of profitability.
A.1	<p>With regard to the overall profitability of our business, I expect to improve gross business profit by approximately 13 billion yen by implementing the measures I mentioned today. This is expected to improve ROE by several percent.</p> <p>With regard to the balance sheet, we will maximize the lifetime value from relationships with clients through ancillary transactions, while building up stable recurring revenue from high-quality mortgage loans.</p> <p>We have been increasing the balance of mortgage loans with the aim of acquiring a good client base for the future businesses, but going forward, the increase in outstanding balances is expected to slow down due to increased repayments. In addition, we are considering securitization of parts of mortgage loan portfolios as a response to the finalization of Basel 3.</p>
Q.2	I would like to ask about efficiency enhancement. There are cases in the US where digitalization has increased the productivity of wealth management-related private bankers. I would like to know what kind of initiatives you are taking to improve the productivity of private banking through digitalization and so on.
A.2	<p>In addition to private banking specializing in ultra-high net worth clients, financial consultants provide advanced consulting services at our branches.</p> <p>So far, our initiatives have mainly depended on the number of personnel, but from the perspective of efficient and effective use of human capital, we would like to expand our consulting capacity through systemization and introduction of digital technology.</p>
Q.3	Regarding the collaboration with SBI Sumishin Net Bank (SSNB), to the extent that you comment at this point, what are your benefits of utilizing SSNB'S "NEOBANK®" service?
A.3	We are currently working on the details of the collaboration. Our group has been a little weak in businesses with asset formation generation, therefore, as stated in the release, we would like to create various routes and leads by utilizing SSNB'S "NEOBANK®" service. We also believe that we can lead the asset formation generation to the pre-and post-retirement generation as they get older. Furthermore, we would like to strengthen our initiatives to provide mutual service to clients of both companies.

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Q.4	Regarding the figures on page 8, the number of will trusts is projected to increase from 35 thousand to 60 thousand, while gross business profit will increase from 10 billion yen to 16 billion yen. The growth of gross profit seems to be lower than the increase in the number of contracts. What is the reason for this decrease in fee income per will trust?
A.4	Due to the increase in the number of will trust contracts in recent years, the amount of entrusted asset per contract is decreasing. Going forward, however, we will increase the amount of entrusted assets by strengthening access to clients with a large amount of assets such as real estate. In order to increase the number of contacts with high-net-worth clients through utilizing financial consultants, we will focus on allocating financial consultants in the three major metropolitan areas. Furthermore, thorough human resource development of higher consulting skill, we would like to improve profitability while increasing the number of cases in the future.

Q.5	On the bottom left of page 7, there is reference to strengthening collaboration with partner companies. What kind of collaboration do you envisage with regional banks, UBS, and IFAs, and what are their needs? Please tell me if there are any specific cases.
A.5	As an example, there is a partnership scheme related to civil trusts, and we introduced it in the presentation. Lawyers and judicial scriveners introduce their clients to us, and we provide loans and asset management services. Through this kind of collaboration, we can provide expertise of both service and as a result we can obtain new clients. We have partnerships with regional banks as well. They can be agents of themselves to provide various trust services. There are more than 90 regional banks which provide will trust services as our agents, and we have been able to acquire more than 300 cases of wills and inheritance executions per year. In August last year, we established a joint venture company with UBS and started a full-scale collaboration. Although I cannot provide specific figures, the cases are increasing that both UBS's asset management services and our group's real estate, loans, and asset succession are provided together. We are building a win-win relationship. As for IFAs, they are not able to provide inheritance-related solutions in their approach to their clients, so we aim to complement them in this area.

Q.6	Regarding the expected earnings increase of around 13 billion yen on page 8, please tell us if there are any upside potential or downside concerns. Is it correct to assume that earnings will increase in the late 2020s toward 2030?
A.6	We believe there is upside potential. As inheritance increases substantially and the number of people with dementia increases, we expect to see significant earnings from our inheritance and real estate businesses. Of the 2,000 trillion yen in personal assets, 1,000 trillion yen is in real estate, and we would like to connect these opportunities especially in the three major metropolitan areas to solid profit. We expect the pace of revenue growth to accelerate in the second half of the decade. We also would like to improve efficiency especially in inheritance execution and real estate businesses by promoting DX and system investment.

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Q.7	What are the relative strengths and weaknesses of your company in the retail total solution services business compared to that of your competitors such as megabank groups and Resona HD, which have trust banks under their groups?
A.7	The megabank groups have various function but those functions are conducted by separate entities such as commercial banks and trust banks. On the other hand, our strength is that we can provide one-stop consulting services. We can provide seamless service from consulting to service execution. The fact that a single salesperson can explain all services is appreciated by our clients. Businesses which crossover retail, corporate, and PB are what trust banks excel, and we would like to expand our businesses in such areas. One of our weaknesses, in other words the advantage of mega banks is that megabank groups have more business volume which could be introduced from commercial banks to their trust banks. We would like to make the most of our strengths' collaboration with UBS and regional banks to compete with them.

Q.8	Please tell us the absolute level of stand-alone ROE for retail total solution services business for 2030, if any.
A.8	As a business, we have not designated a target for the absolute level of ROE for 2030 at this time, but we believe that we can increase ROE by several percent by increasing gross profit by 13 billion yen as explained today, and we would like to contribute to the improvement of ROE for the entire company.

Q.9	With regard to the revenue from company-owner transactions, you expect the revenue to grow from the current 500 million yen to 4 billion yen by 2030, but company-owner transactions overlap with the private banking area. What kind of profit growth do you expect for private banking as a whole, if you have an image?
A.9	As for the private banking area, I explained two strategies. One is our initiatives in family-owned company and the other is civil trust. The former is designed to transfer relationship with business owners from individual clients to clients who have assets in the name of corporation. Some clients say, "As a company, I have a business relationship with a commercial bank such as a mega bank, but for personal assets held in the name of a corporation, I would like to consult with a bank that does not have a business relationship with the corporation." We would like to find business opportunities such as business succession. With regard to civil trusts, the latter one, the number of trust accounts is far ahead of other financial institutions. We expect the market of civil trusts will expand toward 2030, and we would like to further increase our market share. In this area, we would like to increase the number of cases of testamentary trusts as well as civil trust support to increase our revenue.

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2. Wholesale total solution services business

(Respondent: Shigeki Tanaka, Executive Officer of SuMi TRUST Holdings)

Q.1	I have the image of impact equity described on page 4 that SuMi TRUST will expand its own investments as seed money and then bring in investor funds. Is it correct to understand that the timing for the expansion of AUM combined with investor funds is in the latter half of this decade? Also, please tell us about the current interest of institutional investors regarding impact equity.
A.1	<p>We believe that AUM expansion will be in full swing in the latter half of the 2020s. At present, we have received about 20 consultations, mainly from large corporates. Our seed money will be utilized initially, but we are considering investment arrangements that would allow investors to participate after that.</p> <p>Although the number of investors who can participate from the seed stage is currently limited, we assume that many investors would be able to participate when the investment stage becomes stable, and we are introducing our impact equity initiatives to the ESG Regional Finance and Decarbonization Study Group. Investors have shown high interest in impact equity.</p>

Q.2	With regard to impact equity investment, I would like to know the difference in estimated investment period between socially adopted technologies (small to medium risk) and technologies at an early-adoption stage (medium to large risk).
A.2	The expected investment period and returns will vary depending on the maturity and stability of the project. In general, many of the projects that invest in technologies at an early-adoption stage have a duration of more than 10 years. If the technology is more established, it will be shorter than 10 years, and we believe that the risk-return and investment period will be correlated.

Q.3	Regarding page 6, quantitative projections for 2030 are still being formulated, but to what extent do you expect revenues to increase by implementing the initiatives you explained today? I would also like to know about the outlook for RWA.
A.3	<p>We are still discussing our vision for 2030, so we cannot comment anything definitively, but we have stated that we are aiming for ROE of 9% over the medium to long term, and Wholesale total solutions services business will play a leading role to achieve this goal. The corporate segment ROE of 9.2% shown on page 2 is the result of revising the figures disclosed in November in 2021 to Basel III finalized basis and taking RWA of strategic shareholdings into account. In order to further improve ROE of 9.2%, we will continue to strengthen our profitability by focusing on impact businesses, improve capital efficiency and further enhance profitability by shifting to product lending and sourcing funds from investors. For example, when arranging sustainable finance, by doubling the amount of participation by investors, profitability will improve by approximately 20% due to arrangement fees.</p> <p>We have not yet formulated the specifics of how much RWA will increase, but impact equity RWA will only utilize a limited portion of the RWA reduced by strategic shareholdings. We will consider the RWA plan by looking at the balance between overall capital accumulation and ROE.</p>

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Q.4	With regard to the reduction of strategic shareholdings on page 5, what is the outlook for the pace of reduction after the two-year reduction target is achieved?
A.4	Reduction of strategic shareholdings is progressing relatively well, due in part to the penetration of the Corporate Governance Code. After the completion of the initial two-year plan, we will take into consideration, the degree of penetration and acceptance regarding our policy for reduction of strategic shareholdings among our clients and the market environment.

Q.5	As for impact equity investment, you said that your return target is over 10% IRR. What is the time frame from the point of investment till the timing when the return from the investment is posted?
A.5	The time frame for profit contribution varies considerably depending on the investment target. For example, JRE, which is introduced on page 4 of today's presentation as an example, is a company that is already running businesses, so the return on investment will be posted immediately. If it is an investment associated with the launch of a fund, the return will materialize after the fund becomes operational. Considering the fact that it takes a long time to recognize the return on a project utilizing technology at an early adoption stage, I think the overall contribution to earnings will be accumulated with some delay.

Q.6	The current limit for impact equity is 500 billion yen, but will this limit be increased depending on the progress in reduction of strategic shareholdings and hedging transactions? Also, should the RW ratio be recognized as 400%?
A.6	The decision whether to alter 500 billion yen allocation for impact equity as a result of the decrease in RWA for strategic shareholdings shall be made taking the various factors at the time into consideration. The release of RWAs by reduction of strategic shareholdings is quite substantial, but we will consider whether to expand the quota considering risk-return and the investment environment at the time. The impact equity investment may be in unlisted stocks or in mezzanine. The RW of impact equity differs depending on the type of investment.

Q.7	Does impact equity have market value risk? If so, will it be hedged in the same way as strategic shareholdings?
A.7	Since impact equity is assumed to be illiquid unlisted stocks and mezzanines, it is assumed that, in many cases they do not have market value risk. Discussions on hedging of impact equity have not yet been simmered down, but given the fact that hedging instruments are also limited, we believe it is unlikely that we will engage in hedging transactions.

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Q.8	<p>On a book value basis, strategic shareholdings have a dividend yield of 5%, and when they are sold, the gain on the sale is immediately posted. Impact equity, on the other hand, takes much longer to monetize. There will be a time lag before the profit from impact equity compensates the reduced profit from strategic shareholdings, and profitability will decline during that period. What are your thoughts on this issue?</p>
A.8	<p>The dividend yield of strategic shareholdings is high, but hedging cost is incurred. After deducting hedging costs, we recognize that the contribution to profit is not that substantial.</p> <p>We estimate that the corporate segment ROE will increase by approximately 1% on Basel 3 finalized basis if all strategic shareholdings are sold. We will sell our strategic shareholdings and convert them into new risk assets to generate investment returns. However, it is true that monetization of all impact equity takes time and there is a time lag.</p> <p>As part of our efforts to strengthen our impact business, we are planning to invest ¥5 trillion in sustainable finance, including lending for renewable energy projects. In addition to securing profits from these transactions, at the same time, we expect to improve profitability by shifting from domestic corporate lending to product finance, after which the earnings effects of impact equity will become more apparent.</p>
Q.9	<p>The corporate segment ROE is listed on page 2, I would like to know what the ROE of Wholesale total solutions services business is on a stand-alone basis. In addition, what level do you aim to achieve in the future? I would like to know the concept of comparison with other companies in the same industry and benchmarking.</p>
A.9	<p>We have presented the corporate segment ROE on a trial calculation basis, but we are still discussing internally what kind of ROE to use for business evaluation. The business model of a trust bank is quite unique and differs from that of megabanks in many ways. The ROE of wholesale total solutions services business will decline by a few percentage points when earnings of other businesses such as stock transfer agency and real estate are deducted. RMs of wholesale total solution services business are responsible for comprehensive transactions in collaboration with other businesses, and we are currently discussing how to set the level of segment ROE in the future.</p> <p>I believe that there is no other financial institution in the world that has modeled its integrated banking and trust banking businesses, and impact business as we have and is strategically working on it as a value chain.</p>
Q.10	<p>In relation to page 6, what kind of initiatives are needed for yen-denominated corporate lending in order to raise ROE? Is it fees, spread increase, or initiatives to encourage off-balance sheet transactions? Also, how do you see the balance sheet evolving over the medium term?</p>
A.10	<p>We will improve ROE by increasing spreads through transition from corporate lending to product lending and improving capital efficiency through sourcing funds from investors. The balance sheet in the medium term will be considered in light of the movement of RWAs, the SuMi TRUST's overall capital accumulation, ROE and ALM status, but we believe that the balance can be increased if it is profitable and leads to ROE improvement.</p>

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Q.11	I would like to know if there is anything that was pointed out by the external directors that left a strong impression on you. I would also like to know if there are any examples of external directors stepping in and getting involved in the development of business models and the formulation of specific business strategies.
A.11	The questions and opinions from external directors are quite often from the perspective of investors and clients. They are very helpful in planning and implementing strategies for the execution side. The impact business model is also supported by the external directors as a business model unique to a trust bank group, and they want us to proceed firmly with perspective of investors in mind.

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