

Conference on Revision of Full Year Forecast for FY2021 and Share Repurchase

Questions and Answers (February 25, 2022)

(Respondent: Hitoshi Sato, Senior Managing Executive Officer)

Q.1	Based on the policy aiming dividend payout ratio of around 40% in or around FY 2022, SuMi TRUST could have set the dividend per share at 180 yen as Net income was revised to 170 billion yen. Why did you decide to revise it at 170 yen per share this time?
A.1	One of the reasons for this could be emerging uncertainties in the world at this moment. Please be noted that even if consolidated net income cannot reach the target of 170 billion yen, due to factors which are not currently anticipated, we will keep the dividend per share at 170 yen, as announced.

Q.2	The period for the share repurchases is set at the end of August. How should this be viewed in relation to the period when considering the total payout ratio?
A.2	Since the beginning of current medium-term management plan, share repurchases have not been positioned as a measure of shareholder return in terms of the total payout ratio. We have explained that we will share profits in a fiscal year by dividends and that share repurchases will be conducted in a flexible manner from the purpose of improving capital efficiency.

Q.3	You explained that if SBI Sumishin Net Bank (hereinafter referred to as "SSNB") goes public, the proceeds from the sale of its shares will be used to further improve the soundness of hedging transactions. On the other hand, however, if the listing does not go through, does that mean that any operations on hedging transactions will remain in the next fiscal year?
A.3	First, I would like to inform you that we will be able to manage the unrealized loss of hedging transactions next fiscal year with the profit from the sale of strategic shareholdings even if the listing of SSNB does not happen with the efforts we have made this fiscal year to improve the soundness of hedging transactions. Adding that, if we can obtain gains on the sale of shares from the listing of SSNB, the soundness of hedging transactions would be furthermore improved.

Q.4	Next fiscal year is the final year of the medium-term management plan, and Net income target is 190 billion yen. Based on the situation up to 3Q of FY2021, are there any issues we should reverify our estimates on the base profitability?
A.4	As explained at the time of the interim results, Net business profit was progressing at a pace that exceeds the plan, and there is no change in our assessment that we have been gaining capability to achieve 190 billion yen in consolidated net income without relying on gains from stock sales. While our earning power in the client-based business is increasing, recurring fees and commissions have grown in some respects due to favorable market conditions such as rising market prices. Given the current situation in the world, we will need to carefully assess the impact of macro factors such as geopolitical risks, inflation, and supply chains on Net business profit and credit costs and carefully examine whether it is possible to achieve 190 billion yen in the next fiscal year.

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Q.5	What indicators will you focus on for future share repurchases?
A.5	We will continue to flexibly consider share repurchases from the perspective of the best balance between capital adequacy and capital efficiency. While share repurchase could be regarded as one of options for shareholder returns, we consider it as a form of investment in capital utilization, placing importance on ROE, of which we are targeting 8-9% over the med-to long- term, to improve capital efficiency in the future. In addition to share repurchase, we will also actively consider investments that will lead to business growth and virtuous circulation of funds, assets, and capital.
Q.6	Why was the timing of the earnings and dividend revisions decided at this time instead of last month?
A.6	The main reason is that we would like to assess the impact of unrealized gains/losses on hedging transactions on earnings for FY2021, as I have mentioned before. Based on the time remaining in FY2021 and the fact that the market value of hedging transactions is calculated on a monthly average price basis for the decision of write-off, we have thought that there is no more significant downside risk during this fiscal year. We also would like to avoid revising the dividend beyond the end of March.
Q.7	What are your plans for the content and scale of the incentive plan for employees?
A.7	Specific details have been under consideration but the cost will not be very large at the beginning.
Q.8	What message is contained in this share repurchase?
A.8	We have explained that we would flexibly consider share repurchases while assessing the adequacy of our capital. At this time, as we have an acceptable level of capital adequacy, we decided a larger repurchase amount than before in order to firmly convey our intention of entering the phase of capital utilization.
Q.9	What is the future target for the CET1 ratio and how will it be managed? If the ratio exceeds the target level, will you manage it around the target strictly or allow a certain time buffer to deviate? Are there any change in the policy for capital utilization?
A.9	Basically, we aim to manage the CET1 ratio at a level over 10% in a stable manner. As a measure to enhance capital efficiency, we would like to consider growth investments, impact equity, and share repurchase as investment options in a balanced manner. In many cases, investment strategies are based on med- to long-term time horizons, and it is difficult to see results on a yearly basis. Therefore, we consider that outcomes from investment will be measured on a multi-year basis.
Q.10	Will the gain on the sale of SSNB shares have no impact on consolidated net income or dividends, whether it happens in FY2021 or in FY2022?
A.10	You are correct. We basically believe that even if the gain on the sale happens it will not be considered as a source of dividends because it is a gain in the nature of investment recovery, while there is an impact on the capital adequacy.

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Q.11	What is the size of the number of shares held by employees using the incentive plan?
A.11	There are two types of incentive plans to be enhanced, stock-based compensation and stock ownership plans. We regard the latter more important because it reflects employees' intention but have not determine a target of the number of shares at this timing. We would like to improve employee engagement in these measures to create value in the same direction as the shareholders.

Q.12	How can investors measure the effectiveness of investments in human capital from now on?
A.12	It is important to improve our productivity eventually and how to disclose the progress will be a challenge for us. We will discuss KPIs for FY2022 and the next med-term management plan.

Q.13	Do you concern any impact on your business regarding the current situation in Russia and Ukraine?
A.13	We do not have any direct credit exposure to Russia or Ukraine. However, we will assess its indirect impacts (on the performance of client companies and financial markets due to increased geopolitical risk in the European region, inflation caused by rising energy prices, impact on supply chains, etc.), as it is one of the key points in verifying our business capability to earn profits in FY 2022. While we believe we are steadily developing our earning power, mainly in the client-based business, we assume that stock-based fee income will be affected to a reasonable extent by fluctuations in financial markets and asset prices.

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.

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