

1. Retail Total Solution Services Business

(Tsuyoshi Saito, Officer in charge of Retail Total Solution Services Business)

Q	<p>✓ SuMi TRUST Bank's residential mortgage loan is known for its most competitive pricing (interest rate), but typically, clients who choose mortgages based on interest rates may not necessarily be the most devoted client. Will clients who are sensitive to price (interest rate) remain as clients even after paying off their mortgages and purchase additional investment products? What is your view on ensuring client loyalty?</p>
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A	<p>✓ The average annual income of our residential mortgage clients is about double of that of an average residential mortgage borrower whose data is available from the Japan Housing Finance Agency. With a competitive interest rate setting, a virtuous circle has been created in which we can attract high-income clients.</p> <p>✓ On the other hand, from the perspective of client loyalty, while we had been focusing on acquiring mortgages, it is undeniable that efforts towards obtaining add-on transactions were not sufficient.</p> <p>✓ For example, I have heard that megabanks already propose instalment savings plans and illness protection insurance when dealing with mortgage clients, and we would like to direct our efforts to these aspects.</p> <p>✓ We would like to spend time on these efforts and maintain a relationship even when the client reaches 50 or 60 years old.</p>
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Q	<p>✓ There seems to be an idea of opening slimmed down branches in the future, but what is your thinking on your branch location strategy and the regions/cities that will be in focus?</p>
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A	<p>✓ For us, the branch is an important channel for securing client contacts, so we will examine the current branch network and consider openings in locations where there is a void in branch coverage and potential for client development.</p>
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Q	<p>✓ Although it was explained that the amount of backoffice work will be halved in about 1.5 years, may I assume that the focus, is to increase profitability by re-allocating 1,000 administrative staff to marketing roles, rather than cost reduction?</p>
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A	<p>✓ By reducing backoffice work, it is possible to reduce cost by headcount reduction and also by trimming administrative resources. That alone would improve OHR, but our business objective to enhance productivity has a dual goal of reducing cost as well as improving the top line.</p>
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Q	<p>✓ What is the timeframe for the reallocation of 1,000 marketing staff? If 1,000 staff were moved to marketing roles, what is the approximate increase in overall marketing headcount?</p>
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A	<p>✓ Although it takes time for the operation of the host-DB linked tablets to stabilize, which is the key to reducing the amount of branch backoffice work, I believe it would be possible to reassign 1,000 staff once system operation has stabilized.</p> <p>✓ The reallocation of 1,000 staff shall not be limited to within the retail total solution services business, but we will review the posting possibilities for the entire group, including wholesale, pensions, stock transfer agency and real estate businesses.</p>
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Q	✓ Although quoting a ratio may be difficult, given the fact that the retail total solution services business is positioned as a growth area, can we assume that a significant portion of the marketing shift will be allocated to this business?
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| A | ✓ When considering the re-assignment of personnel, the move must take re-training into account. At the same time as introducing the host-DB linked tablets, we have made steady progress in learning programs to familiarize the staff to new roles.
✓ Although it is not possible to present a specific re-allocation plan at this moment, for example, it is necessary to deploy highly specialized personnel to grow inheritance related business, and in order to expand business, improve productivity, and increase sales, it is necessary to assign appropriately trained staff to the job. |
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Q	✓ When introducing next generation trust type branches, if 70% of the administrative work could be reduced, what would be the impact to expenses and OHR?
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| A | ✓ Shift to slimmed down branches are to be carried out sequentially, so it would take some time for the benefits to materialize.
However, in a cost-simulation for new branch openings, estimate results indicate that the cost can be reduced by approximately 20 to 30%. |
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Q	✓ Do you have an idea to further utilize SBI Sumishin Net Bank in the residential mortgage business?
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| A | ✓ Collaboration in dividing face-to-face and the non-face-to-face channels has made progress.
✓ If face-to-face consulting is necessary, we would request the client to visit the branch counter of SuMi TRUST Bank, and if the client wishes to complete the process online, SBI Sumishin Net Bank will act as an agency and the actual loan shall be provided from SuMi TRUST Bank's books. This agency loan model has booked about ¥100 billion in the semi-annual period. |
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Q	✓ What is the composition of gross business profit by each generation? ✓ Also, how do you think this make-up would be in 5 years' time?
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| A | ✓ Revenue from the asset formation generation is mostly from residential mortgages. Investment management consulting is the main source of revenue from pre/post-retirement and seniors segments.
✓ Regarding fee revenues, contributions from instalment investment plans and casualty type insurance from the asset formation generation are expected to increase, but the contributions of near/post-retirement and seniors segments are still substantial. |
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Q	✓ I recognize the importance of emphasis on consulting, but in the end, I think that a product would be chosen based on its merits. I think that the low interest rate of your residential mortgages leads to product differentiation, which is the driving force of your success, but can you really discern products other than mortgages?
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| A | ✓ In product development, even if you develop a new product and benefit from a first-mover advantage, similar products will be introduced and erode benefits.
✓ We think that, ultimately, it is difficult to differentiate solely based on products, so we are seeking face-to-face consulting as the source of differentiation.
✓ Looking at our investment trust and insurance product lineup, there are no material differences compared to our competitors, but still our sales amount is No.1 in the banking industry, which proves that our face-to-face consulting skills are aptly trained. |
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Q	✓ You have noted longevity risks and reverse mortgages from the viewpoint of expanding your product line-up, but reverse mortgages have not lived up to expectations and all companies are struggling to expand it. Based on these circumstances, do you think that it is possible to devise a differentiated reverse mortgage product?
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- A ✓ Up to now we have offered two types of reverse mortgages. One is to offer it in conjunction with inheritance dealings such as Will Trusts for affluent seniors to assist a wealthy retirement, the other to utilize it as a tool in order to avoid burdening the next generation, or to meet the needs to purchase a second residence.
- ✓ We have increased our product lineup since this January. It responds to the needs of our elderly clients to move into to a smaller house.
 - ✓ However, we do not consider reverse mortgage to become a pillar of our earnings, it is positioned as one of the tools to solve our elderly clients' concerns so that it could offer us an opportunity to be selected as their preferred bank.

Q	✓ I would like to ask about the marketing position of Diners Club members, the status of collaboration with SuMi TRUST Bank, and your plans to cater to the clients based on age segmentation.
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- A ✓ The client base of SuMi TRUST Bank is mainly "stock-rich", meaning they have substantial accumulated assets, but Diners Club members are mainly "flow-rich," meaning they are active high-income earners. In terms of client segmentation, the two are quite complimentary and Diners Club enabled us to reach out to a client segment that was difficult for us to widen.
- ✓ We are trying to offer Diners Club cards to clients of SuMi TRUST Bank, but we are also actively soliciting Diners Club members to become clients of SuMi TRUST Bank.
 - ✓ Looking at the results of various marketing campaigns, we believe collaboration is bearing fruit as a meaningful number of Diners Club members have become SuMi TRUST Bank's client.

Q	✓ Regional banks and others are marketing credit cards in conjunction with mortgage loan originations, do you have a card offering policy towards the younger generation?.
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- A ✓ Regarding credit cards, we have two categories; Diners Club and Visa/Master, and if the client has interest in gastronomy or travel, we would like to offer Diners Club, for clients who value wide acceptance or convenience, we would introduce them to Visa/Master Cards.

Q	✓ Fee income ratio has risen to 69%, what is the target level for the future?
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- A ✓ We believe that the current 69% is an appropriate level.
- ✓ We are striving to create a stable earnings structure that would allow us to maintain a fee income ratio of around 70%, while improving interest income from new mortgages and loan-deposit spread increase.

Q	✓ It is important to make efforts to expand transactions with the asset formation generation in reforming SuMi TRUST Group's profit structure, but how will you expand your client base? Current interaction with the asset formation generation is mainly residential mortgages, but what are your plans to market instalment investment plans and insurance?
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- A
- ✓ There are three to four meeting opportunities with clients from the point of receiving a mortgage application until actual loan execution, but the number of documents to be filled is substantial, and we could not secure enough time to introduce financial products.
 - ✓ Currently, we are making progress in providing consulting by making effective use of clients' visits to the branch. One example that is working well is illness insurance. The coverage rate was about 10% two years ago, but it has risen to about 40% in recent transactions.
 - ✓ Meanwhile, we are working to shorten the explanation time of important information. Up to now it took about 100 minutes to explain the details of the contract, but a review to the workflow to halve this time has been completed. In the next couple of years, we would like to digitalize the entire workflow of mortgage loans, and the credit application and approval process could also be digitalized.
 - ✓ By these initiatives, we believe that if we can utilize the contact time with clients for face-to-face consulting, we will be able to leverage our business model further.

Q	✓ Your mortgage book has expanded due to competitive interest rates, but I understand that megabanks are reducing their portfolio due to extremely competitive interest rate environment. In the future, if the cost competitiveness of megabanks increases due to digitalization, your portfolio expansion plan might reach its limit?
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- A
- ✓ Although there is room for volume expansion, we acknowledge that adding value at the timing of mortgage loan origination is key.
 - ✓ At the timing of a mortgage loan borrowing, it is important to provide diverse life planning options to the client using the time created by digitalization of backoffice work to broaden the interaction with the clients.

2. Wholesale Financial Services Business

(Yukihiro Kitano, Officer in charge of Wholesale Total Solution Services Business)

Q	<ul style="list-style-type: none">✓ How do you envision the significance of wholesale financial services business in terms of the company-wide business portfolio of the trust bank group? Please answer taking into consideration, that there are questions from overseas investors that the group should focus on trust businesses with higher capital efficiency rather than corporate lending businesses.✓ Among megabanks, there is a trend to merge banking, trust and securities businesses and also transfer wholesale business of trust banks to the commercial banking entity, to pursue further integration of the group. How do you intend to differentiate yourself from competitors?
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- A
- ✓ Please allow me to answer the two questions together.
 - ✓ Firstly, wholesale financial services business must contribute as a pillar of the group's overall profit base.
 - ✓ The wholesale financial services business of trust banks has changed with the times, but in a negative interest rate environment, we must endeavor to alter our profit structure through business model transformation as outlined in the Mid-Term Management Plan. First and foremost, we must offer unique, differentiated services as a trust bank, providing value-added services that are appreciated by our clients, to become our clients' "Best Partner".
 - ✓ One venue is that we have broad access to not only the finance department of a client company, but also to other corporate functions such as general affairs and HR departments, and understand their needs to provide a comprehensive solution. This is our strength which we can leverage.
 - ✓ Due to solid corporate earnings, although the necessity of bank loans is gradually diminishing, we believe that some level of bank relationship will always be maintained. Under the current environment, growth strategies would lead to forward looking investment and overseas M&A, and we would endeavor to maintain a presence in these financial transactions.
 - ✓ Also, for financial institutions such as regional banks, unlike megabanks, taking advantage of our neutrality that does not lead to a competitive relationship, there are many opportunities to offer business solutions as trust bank in addition to investment management.

Q	<ul style="list-style-type: none">✓ The balance growth of product-related loans that is the focus of credit portfolio reformation seems weak in comparison with the plan. Is this due to lack of investment opportunities or stringent credit approval criteria?
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- A
- ✓ The growth of product-related loans seems weak due to several factors.
 - ✓ The number of investment opportunities is not decreasing, but the deal-terms are tightening, and the minimum investment threshold to join a syndicate is increasing.
 - ✓ We manage our credit portfolio with discipline, and place importance to control deal exposure. How to balance this philosophy with the current market requirement for larger participations is an issue for us.
 - ✓ In order to work on projects while maintaining discipline, it is necessary to solicit co-investors. We are strengthening our wholesale asset management business to nurture joint-investors for a win-win relationship by offering investment opportunities to investors who are struggling to find investment opportunities.

Q	✓ Looking at your 3Q results, the contraction of domestic loan-deposit spread seems to have bottomed-out. Do you agree with this outlook?
A	✓ Regarding domestic loan-deposit spread, our view is that it seems to have reached its bottom, but we are not optimistic about its upturn. We intend to improve our loan-deposit spreads by increasing exposure to domestic M&A, growth-story financing opportunities and credit to middle corporations.
Q	✓ With regard to foreign currency funding, I understand that it has been nearly a year since the cost of credit currency swap(CCS) funding began to fall, but because funding duration is about three years, it would take some time (until the second half of next fiscal year) before the reduction can be clearly recognized. Is this understanding correct?
A	<p>✓ Foreign currency funding cost (CCS) has been declining as you noted, but the tangible benefits would not become apparent until the second half of next year.</p> <p>✓ Regarding CCS transactions, we have entered into transactions of various maturities and staggered start dates to diversify our funding maturities. As a result of this, the decline of our funding cost would lag behind the market quoted prices, but it will steadily decrease over time.</p>
Q	✓ (In the lower pie chart of P18) Which type of business has the most number of transactions?
A	✓ Firstly, the graph shows not the number of loan transactions, but the number of non-finance transactions per company. Among them, pension and stock transfer agency transactions are the most frequent, real estate is second.
Q	✓ You have multiple transactions with 50% of large corporate clients and with 30% of middle corporate clients, how far do you think you can stretch this number? Do you have specific numerical targets set as internal goals?
A	✓ Although the ratio of multiple transactions is not designated as a target, we have KPI that is close to this which is being monitored. By increasing the number of transactions per client, we are aiming to expand the number of clients to whom we can become their core banking counterparty.
Q	<p>✓ With regard to wholesale corporate clients, is your strategy to increase the number of clients, or deepen the relationship and increase the number of transactions per client? Taking into consideration your limited number of branches, I think increasing the number of clients could be challenging.</p> <p>✓ I understand regional banks are striving to increase their middle corporate client base as megabanks are reducing their exposure to this sector. Do you think that there is room to increase this portfolio?</p>
A	✓ Our basic strategy is to expand our middle corporate client base as this market has room for growth. For large corporate clients, as we already have relationship with a considerable number of them, we will strive to strengthen the existing relationship.

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| Q | ✓ I would like to ask about the role of overseas branches in wholesale financial services business in light of your business plan to reform your credit portfolio. |
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- ✓ In cooperation with the domestic product departments, overseas branches centered on New York, London and Singapore for Asia, are working in areas of their respective strengths.
 - ✓ For example, New York branch has been building a portfolio in high yield loans and asset backed finance such as real estate non-recourse loans. North America is a vast market where we could acquire knowledge in a wide variety of asset management and investment opportunities, and to boost our efforts to utilize those opportunities, we will leverage our alliance with GreensLedge.
 - ✓ London branch has established a JV with a foreign bank and is involved in ship financing. It is strengthening its product line-up in a different manner from New York branch, such as aircraft finance and real estate non-recourse loans.
 - ✓ Singapore branch is also involved in non-Japanese corporate loans and Japanese-related project finance in partnership with local banks.

3. Fiduciary Services Business

(Masahiro Tsuchiya, Officer in charge of Fiduciary Services Business,
Yoshio Hishida, Officer in charge of Asset Management Business)

Q	✓ Regarding your strategy to win mandates as DC plan administrator, I understand your strategy has been to focus on quality to avoid discounting of administration fees which has been successful. What is your competitive advantage?
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- A ✓ The source of competitiveness is our refined consulting services that anticipate the clients' needs to take preemptive action, and quality of service that our competitors cannot match.
- ✓ Taking a DC call center as an example, there are cases in other companies that have located them in remote areas, but we have the call center housed together in our head office building and assigned staff with specialized knowledge. Also, regarding investment education, we have refined the curriculum to include the clients' overall life-planning, not only limited to explanation of DC as a pension plan. This has led to investment trust selection rate and selection rate of DC matching of plan members that is far above industry average. DC is an employee-centric pension plan, and our service quality has been recognized by the client companies' HR and by their labor unions, which has enabled us to win businesses at an appropriate fee level.
 - ✓ Of course, as a result of our marketing strategy requesting for adequate pricing, there are cases where we could not obtain a mandate. But if we start reducing fees with the short-term objective of increasing fee income, that could be the small leak that could ultimately damage our business base, so we are mindful to stay the course to maintain adequate fee levels to provide better service to our clients.

Q	✓ About proliferation of passive and no-load investments, do you think Japan will follow the footsteps of the US market, or do you think there could be differences in market evolution? How do you intend to cope with it?
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- A ✓ I believe services to offer market beta cheaply would gain further acceptance in Japan. However, with that in mind, I have three comments. First, passivization could be an opportunity. Many years of business experience with institutional investors allows us to provide various index and smart-beta products to institutional investors at a competitive pricing level. We have obtained mandates from domestic and overseas clients and passive products are one of our strengths. Second, the trend of commoditized products to become cheaper is applicable to financial products like any other goods. Therefore, we will strive to boost our value adding active and alternative investments. Third, index and smart-beta products are still fee earning products, so we will act to improve the profitability of smart-beta products.
- ✓ One additional comment from the perspective of pensions. When a client moves assets from a DB plan to a DC plan, the passive portfolio of the DB is usually transferred. By changing commoditized passive DB portfolio into a DC investment trust, there could be an additional business chance for us.

Q	✓	What are the anticipated changes due to the integration of the asset management functions of SuMi TRUST AM and SuMi TRUST Bank? In particular, what is the impact on the profit side?
	✓	Nikko AM has offices in Singapore, but what is your future business strategy in overseas markets?

- A ✓ Regarding the integration of asset management functions, SuMi TRUST Bank is centered on institutional investors whereas SuMi TRUST AM is an investment trust business centered on retail clients. Both have different business fields and little overlap. We shall endeavor to grow both institutional and retail businesses as before. Put it another way, there could be some room to slim down head office functions, but it is not an integration that is expected to create substantial cost reduction synergies.
- ✓ As for overseas expansion, it is true that we have Nikko AM's business foundations, but organic growth alone is deemed insufficient. By communicating with European and US asset managers, we are always looking for alliance and equity partnership opportunities. However, we need to be aware of differences in investment philosophy and compatibility of business model, so we have no intention of rushing into a relationship and will consider options as and when they appear.

Q	✓	Regarding your AUM balance of 88 trillion yen as of December 2017, how long will it take to reach the target of 100 trillion yen as noted in the Medium-Term Management Plan announced last May? Also, your strategy is to expand your client base from domestic institutional clients to retail/PB and overseas, what would the likely domestic/overseas composition be like when your reach AUM of 100 trillion yen?
	✓	From the opposite point of view, how fast do you think the fall in fees will be?

- A ✓ Regarding expansion of the client base. There are various needs by respective client categories and each offers a business opportunity. Domestic pensions will not grow very much but we will maintain our presence, retail/high net worth clients and overseas clients are areas for growth. We have won many passive and smart-beta mandates in overseas markets, and we would aim to grow AUM as well as profitability.
- ✓ Regarding the timing for attaining the AUM target of 100 trillion yen, it could be swayed by market conditions, but we would like to reach it in the next several years. One point to note is that AUM alone should not be the goal of an asset management company, but rather it should be the result of enhanced investment management gaining the confidence and trust of clients leading to an increase of AUM.

Q	✓	How will you utilize alliances and equity investments to strengthen asset management capabilities and business foundations?
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- A ✓ Our primary aim is grow organically in a steady manner. But we will also consider the possibility of alliances and equity investments to expand our overseas business base and to diversify products.

4. Governance

(Isao Matsushita, Chairman of the Board of Directors)

Q	✓	Could you share your thoughts regarding the company's strengths, weaknesses and challenges? What are the differences between your expectations and reality after assuming your role?
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- A ✓ Our strengths can be summarized as strong relations with retail and corporate clients, the expertise of employees, and flexibility of organizational management. Other external directors have also mentioned that they feel that this organization has the flexibility to adapt to a changing business environment and is open to new ideas. With regard to the issues, they are exactly the ones mentioned in the Medium-Term Management Plan. Namely, to transform our business model, strengthen governance and fiduciary duty in a steady manner.
- ✓ About the differences from my assumptions, trust bank's scope of business is extremely broad and specialized. I had contacts with banks during my career in business, but I felt I needed to reset my image of a bank in my mind after I assumed my current role.

Q	✓	As trust business is a business that is not capital-intensive, I think capital efficiency could be better, but the company's current capital efficiency is not that impressive. Given this fact, I would like to seek your opinion on the requirement to disclose ROE by business segment.
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- A ✓ Our business lineup has numerous business crossover areas, and when considering that our business model aims to actively create synergy effects from these crossovers, it is difficult to judge whether a numerical value of capital efficiency and profitability of business units is accurate as an evaluation benchmark. Of course we need to verify adequacy of capital allocation, but we need to carefully assess the validity of splitting the number along business lines.

Q	✓	Do you feel that the sense of crisis is sufficient regarding competition with megabanks that are working on cost cutting as their earnings top line shrinks? What is your view about the adequacy of our strategy to increase client contacts and expand the top line?
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- A ✓ First of all, we need to keep in mind that after integration, we slashed costs in a manner that is aggressive in comparison with the megabanks' efforts.
- ✓ In addition, it is necessary to reduce cost further in the future and, as explained in the explanation of retail total solution services business, we need to consider it in tandem with the use of IT technology such as digitalization. We are tackling these issues head-on in my understanding.

Q	✓	In the interview of the Integrated Report, you mentioned that "I will encourage critical discussion and exhaustive deliberation that includes opposing views," but please let me know your self-assessment on the current discussion situation.
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- A ✓ External directors, including myself share various backgrounds, and with this backdrop, we have lively discussions from a variety of angles and we have been sharing those opinions with the executive directors leading to discussions towards a desirable outcome.

Q	✓ Do you believe there is room for improvement regarding the composition of the Board of Directors?
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A ✓ It has been six months since the new system commenced, and we are currently in the process of evaluating the effectiveness of the new scheme. Based on the feedback, we intend to engage in a PDCA cycle to modify the committees.

Q	✓ What exactly are the management themes being discussed at the Board of Directors' meeting as mentioned on P.42?
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A ✓ The discussion on management themes at the Meeting of the Board of Directors is not a forum for immediate decision making. Utilizing the knowledge of the external directors, we have been exchanging views on various themes.

✓ Specifically, as described on page 42, we have been discussing about HR development, reorganization of asset management functions, and group governance. For example, in discussing HR development, there were practical on-the-ground opinions which we felt could have future implications.

✓ I think it is beneficial to continue discussions on management themes to deepen our understanding without aiming to reach some kind of immediate conclusion.

Q	✓ Based on your experience so far, do you feel that governance of a bank differs from other industries? If so, in what respect?
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A ✓ From the viewpoint of company supervision and organizational management, I think that there are no differences between other businesses and banks, but we need to be mindful of the public utilities aspect of banks and various domestic and international regulations that govern the industry.