

## Top Message



We aspire to provide highly value-added services unique to a financial group specialized in trust banking to meet the changing needs of society. Through this endeavor, we shall contribute to the creation of a sustainable society while maintaining stable growth trajectory.

Sumitomo Mitsui Trust Holdings, Inc.  
Director, President

Tetsuo Ohkubo

## Social role of a financial group specialized in trust banking in a changing society

Society is currently undergoing significant changes in terms of both structure and values.

In Japan, a declining birthrate and aging population continue to advance. We are realizing that the era of the “100-year life” is now fully upon us.

For individuals, it has become necessary to make a life plan based on the assumption of longevity for both themselves and their family members. In order to ensure safety and peace of mind in life, the younger generation must engage in systematic asset formation for the future. The senior generation must consider how to increase, protect and pass on their assets to the next generation. As healthy life expectancies extend and lifestyles of each generation diversify, there is rising interest in how to lead a rich life going forward.

As for corporations, the major challenges are how to deal with the growing burden of corporate pensions and health insurance and how to secure human resources amid a declining working-age population and advancing longevity. Corporations must also address ESG management, a three-pronged approach that takes into account environmental, social and governance factors, and which is taking on more and more importance both in Japan and overseas. These ESG initiatives are not only essential for the sustainable growth of corporations, but are increasingly vital as part of our social responsibility to the next generation to realize overall economic development and rich lifestyles for individuals. ESG issues have also captured the attention of stakeholders.

By leveraging our accumulated know-how as a financial group specialized in trust banking, we provide a wide range of solutions to address various client needs generated by changes in social structure and values such as the advent of the “100-year life” and the growing importance of ESG management.

For example, to meet the needs of individual clients, we are strengthening our lineup of products that realize a secure and prosperous life for as many people as possible. These include insurance products that combine different protection features according to stages of clients’ lives, package products that respond to concerns about dementia and other problems of aging, Silver College seminars that help seniors enjoy a prosperous old age, and inheritance-related products.

For corporate clients as well, we strive to offer a wide range of solutions in response to increasingly complex management challenges, such as revisions of pension systems, enhancement of company welfare programs, corporate governance, IR/SR consulting, and environmentally friendly construction consulting. We are also working to expand our options for realizing a sustainable society, including the world’s first Positive Impact Finance with unspecified use of funds. This involves comprehensive evaluations and analysis of activities that have a positive impact on the environment and society and loans to support these activities.

Amid the accelerated pace of digitalization and other major changes in financial institutions’ environment and expectations, it is becoming increasingly important for the institutions to accurately understand the needs of clients and society and to create added value that leverages our areas of specialization.

At this turning point in our era, society is experiencing a rapid and unprecedented transformation. I believe we are called upon to play a role in resolving various social challenges as a financial group specialized in trust banking that has diverse functions and advanced expertise, as well as consulting capabilities, while pursuing further reforms ourselves.

## Initiatives to Transform Business Model Progress Evaluation of Midterm Management Plan

The current midterm management plan began in April 2017. During this period, the Group is implementing measures aimed at shifting to an earnings structure resilient to business fluctuations and market volatility by transforming to a business model that accurately responds to diversifying client needs in a changing society.

Specifically, we worked to bolster and diversify the fee business, a specialty of ours. We also enhanced the profitability of the loan/investment related business and improved the OHR (overhead ratio). As a result, both fee related income and effective interest related earnings\*<sup>1</sup> increased, and consolidated OHR improved in fiscal year 2018 compared to fiscal year 2017. The quality of earnings also improved, including an increase in stable recurring fees. Shareholder ROE reached 7.95%, approaching the 8% targeted in our midterm management plan.

Performance has been strong on the business front. However, growth has been slow in some areas, such as investment in financial products by individual clients, which has not expanded as expected. Furthermore, in order to steadily address the changes mentioned above, we believe that our major management issues are: enhancing our future creation capabilities, developing new solutions, making upfront investments in computer systems that support that development, and striving to control total expenses by improving overall group productivity.

### Business Operations Going Forward

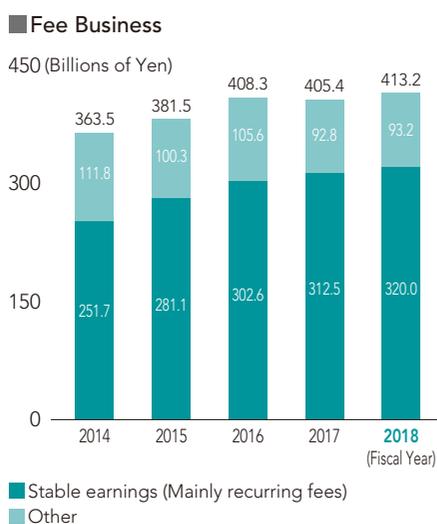
Fiscal year 2019 marks the final year of our midterm management plan. We endeavor to achieve steady results based on our efforts of the past two years by putting the finishing touches on reforms such as strengthening stable recurring fees, which form the foundation for sustainable growth, and further improving balance sheet profitability.

We will resolutely take on challenges in new growth fields that capture major social developments.

#### (1) Strengthening Profitability to Support Stable Growth

We are working to steadily expand our client base and balance of assets under management and to build a stable revenue base, while enhancing the quality of consulting marketing and building up recognition and trust from both individual and corporate clients.

For individual clients, in addition to making medium- to long-term asset formation proposals, we are promoting cross-generation transactions in



\*1 Effective interest related earnings including profit attributable to deployment of surplus foreign currency funds included in net other operating profit.



inheritance- and succession-related businesses where needs are growing. We will reinforce our consulting services for all assets and liabilities, including equity, real estate and financial assets.

For corporate clients, we will provide high value added services such as support for pension system reforms associated with extending the retirement age, investment education for employees, and consulting on enhancement of corporate governance and support for ESG management.

In the loan/investment related business, we will continue our efforts to improve balance sheet profitability by striving to reduce funding costs, and shifting our loan portfolio to high-profit areas where we have strengths. In the meantime, we will respond appropriately to our clients' funding needs.

In the asset management business, we will contribute to medium- to long-term asset formation by providing competitive asset management products to meet the diverse management needs of individual and corporate clients, mainly through Sumitomo Mitsui Trust Asset Management Co., Ltd. and Nikko Asset Management Co., Ltd.

We will also pursue alliances with regional financial institutions and take advantage of our expert functions to provide high-quality services to a wide range of individual and corporate clients.

## (2) Cultivating Growth Areas

We will take on the challenge of expanding our services and diversifying our earnings structure by cultivating growth areas based on accurately understanding client needs generated by social changes and creating new solutions to address them.

For example, we strengthened our insurance consulting functions in May 2019 with the establishment of Sumitomo Mitsui Trust Life Partners Co., Ltd. In June 2019, we launched sales of the 100-Year Life Solution Trust (100-Year Passport),

a trust product that includes features such as asset administration for when a person starts to show symptoms of dementia and a function for passing assets on to the next generation. In this way, we will make maximum use of diverse functions of the Group to address various concerns and needs arising from the advent of the “100-year life era” by developing products and services that offer clients security, safety and richness of life.

In addition, as announced in June 2019, we entered into a capital and business alliance in the wealth management business with the UBS Group, a global leading company in the area of asset management services for wealthy individuals. By leveraging the strengths of both groups, we seek to offer “Total Wealth Management” comprehensive financial services that provide optimal solutions for clients, not limited to products alone.

Furthermore, we are pursuing measures to address the rapidly advancing digitalization of society. We are taking advantage of digital technology in new areas such as enhanced marketing using AI and verification experiments regarding the use of blockchain in the real estate business.

Other than these, we held a contest for ideas from Group employees for creating new future-oriented businesses in fiscal year 2018. We selected four of the over 200 proposals submitted and are now commercializing them. We will continue these initiatives and intend to further revitalize the corporate culture of an “enterprising spirit” cultivated by the Group.

### (3) Cost Structure Reform and Investment in Growth for the Future

As noted above, we consider ongoing efforts to enhance group-wide efficiency to be a major management issue. We will therefore implement well-balanced measures from fiscal year 2019 onward.

First, we will press ahead with improvements in operational efficiency using digital technologies such as RPA\*2, while reducing headquarters staff by 10%

\*2.Robotic Process Automation



during fiscal year 2019 and shifting these employees to highly profitable front-line marketing.

We are making steady progress in reducing administrative workloads at branches, a task we have been working on since fiscal year 2017. We expect a 40% reduction during fiscal year 2019 and are planning a reduction of 70% by fiscal year 2021. Our policy is to demonstrate the added value unique to a trust bank while reducing the amount of space used in branches and improving efficiency. To do so, we will enhance convenience for clients and provide more space for contact with them through the introduction of new multifunction devices, while at the same time shifting to “trust type next-generation branches” that reduce operation space.

Meanwhile, we will begin making necessary upfront investments in computer systems that are the foundation supporting high-quality products and services from the perspective of improving medium- to long-term profitability, while focusing on efforts to improve cost efficiency.

#### (4) Practicing Appropriate Risk Control

Looking over the current economic environment, political and geopolitical risks are on the rise overseas, including growing trade friction between the U.S. and China and the delayed BREXIT negotiations. Concerns are growing in Japan as well with regard to an economic slowdown mainly due to economic volatility overseas.

We are reinforcing our risk preparations as downside-risk management has taken on even greater importance amid uncertainty in the economic and financial environment both in Japan and overseas.

For example, in addition to controlling the risk of fluctuations in the yen and U.S. interest rates, we had hedged approximately 80% of the market capitalization of strategic shareholdings held by the Group as of March 31, 2019. We will continue working to strengthen our financial base by preparing for the risk of fluctuations in the market price of shares while systematically reducing our strategic shareholdings.

With respect to credit risk, we will redouble our efforts focused on risk predictor management and risk management while responding steadily to the funding needs of clients.

## Initiatives to Enhance Management Infrastructure

In order to swiftly and steadily carry out the initiatives I have mentioned thus far, we will enhance our corporate governance system and further strengthen human resources that underlie total solutions. As a Group that emphasizes trust, we will promote compliance with strict international regulations and strive to build a framework to handle our expanding global business.

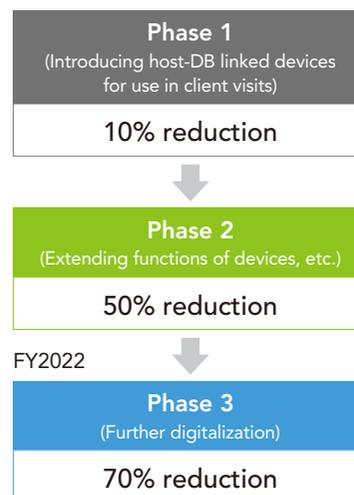
## Initiatives to Enhance Governance

In the interests of enhancing medium- to long-term corporate value, SuMi TRUST Bank and Nikko Asset Management, the Group’s primary subsidiaries, each transitioned to a Company with Audit and Supervisory Committee in June 2019,

### ■ Reduction of branch backoffice work

- Reduce branch backoffice work by 70% in the five years since fiscal year 2017
- Create the workforce equivalent of approximately 1,600 employees

<Reduction Plan>



Expect to achieve 40% reduction during FY2019

■ New Diversity Management Selection 100 project



■ Certified Health and Productivity Management Organization (White 500)



following the similar transition of Sumitomo Mitsui Trust Asset Management in October 2018. With this change, we aim for greater management flexibility and to enhance our audit and supervisory functions. In addition, SuMi TRUST Holdings made Nikko Asset Management a directly owned subsidiary in July 2019, to build a highly transparent asset management business system.

## Developing Human Resources and Expanding Areas for Active Participation

The Group has always considered human resources to be the greatest source of our competitiveness, and it has worked to expand areas in which diverse human resources can play active roles. In recognition of these efforts, SuMi TRUST Bank won a place in the New Diversity Management Selection 100 for the first time.

We also view work style reforms and health promotion management that enhance production while reducing total working hours as high priority issues for achieving sustainable growth for the Group. Specific efforts include working from home and mobile work, as well as smoking bans at all locations. These activities have been highly regarded. The Group was selected as a “Certified Health and Productivity Management Organization (White 500)” for the second consecutive year.

We continue to view human resources as the source of the Group’s sustainable development and will focus our efforts on both developing diverse personnel and expanding areas in which they can play active roles. Specifically, we will boost the expertise, comprehensive capabilities and creative power of employees through enhanced in-house training. In the meantime, we will provide opportunities for growth and active participation among the mid-career and young segments, as well as proactively promote female employees. We are also implementing measures such as extending the retirement age so that senior employees with abundant experience can participate actively with purpose and motivation.

## Enhancing Shareholder Return

The Group intends to make solid returns to shareholders from the results of our business activities. In May 2017, we set our shareholder return policy of maintaining a consolidated dividend payout ratio of around 30%, while gradually raising the total payout ratio to approximately 40% in the medium term by carrying out share repurchases.

For fiscal year 2019, we announced a dividend (forecast) of ¥150 per share of common stock, an increase of ¥10 compared to the previous fiscal year, as well as a repurchase of shares in May 2019. Through these efforts, we expect the total payout ratio to be around 40% of net income attributable to owners of the parent (full-year forecast) for fiscal year 2019, achieving the targeted level of “approximately 40% in the medium term” ahead of schedule.

We will continue to meet the expectations of shareholders by making a substantial return to shareholders, while aiming to raise ROE in the medium term in line with sustainable and stable growth befitting a financial group specialized in trust banking.

## In Conclusion

We recognize even more expectations for diverse functions, advanced expertise and high-quality consulting cultivated by the Group, as client issues become increasingly diverse and complex amid significant changes in the structure and values of society.

We are proud and confident to be a financial group specialized in trust banking. We will strive to earn even greater trust and support as the best partner to resolve all our clients' concerns in a new era and a new environment. At the same time, we will help realize a sustainable society by providing Group services to a wide range of clients by making full use of various networks.

We ourselves will strive for constant transformation and create an even stronger portfolio of varied and unique functions and businesses, including real estate, asset management and asset administration, in addition to banking operations. We will thus establish a business model that is clearly distinct from the conventional commercial banking model centered on financial intermediary services, in order to realize sustainable and stable growth.

Going forward, all directors, officers and employees of the Group, myself included, will do our utmost to live up to the expectations and trust of stakeholders, who range from clients to society and beyond.

We appreciate your continued understanding and cooperation.

July 2019

Sumitomo Mitsui Trust Holdings, Inc.  
Director, President

