

# SuMi TRUST IR Day

December 14, 2018

# Real estate business Takehiko Iwahara, General Manager of Real Estate Planning Dept, SuMi TRUST Bank

# 2. <u>Digital strategy</u> *Manatomo Yoneyama, General Manager of Digital Strategy Planning Dept.*

3. <u>Governance</u> Shinichi Saito, External Director

# Real estate business

1. Status of the market

2. Strategy for brokerage business

3. HR strategies to support brokerage business

# 1. Status of the market: (1) Difference with pre-Lehman market

- √ The market has become refined in comparison to the market prior to Lehman Shock, a
  sophisticated real estate investment market has been formed
- ✓ Continued growth of market and lower risk of abrupt market contraction

# Change of principal market players

Changes to price evaluation methodology of principal investors

Stable, low LTV of real estate funds

### Fund Bubble period

Short term capital gain focused investors had weight

Prices formed with assumption of future rent increases

Excess of 70%

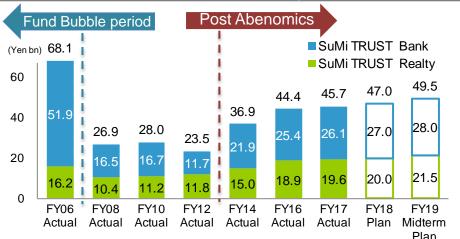
### **Post Abenomics**

Broad base of income-oriented medium/long-term investors expanded

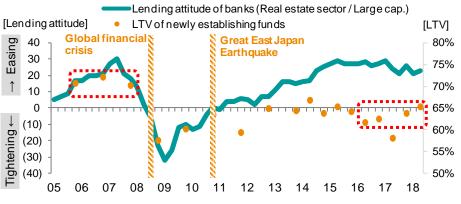
Realistic investment decision made based on current rent/vacancy rate

Low 60% range

### Transition of brokerage fees



### Transition of lending attitude DI



Source: Bank of Japan, SuMi TRUST Research Institute



### 1. Status of the market: (2) Current market condition and outlook

- ✓ Office demand is expected to be stable and brokerage for corporate sector clients is expected to be firm
- ✓ Retail sector is expected to grow steadily centered on active residential property market

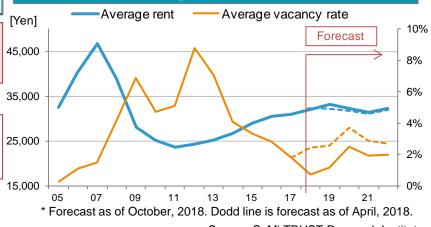
### Real estate properties for corporate clients SuMi TRUST Bank arena Demand-supply expected to be stable Prices have plateaued beyond Olympics till around 2022

Office vacancy: stable low vacancy

Rents: gradual increase

Substantial supply coming to market from 2018 expected to be absorbed due to increased demand

### Rent/vacancy of large properties in central Tokyo



Source: SuMi TRUST Research Institute

### Real estate properties for retail clients

SuMi TRUST Realty arena

### [Residential properties]

Price increase for new condominiums Active market for resale condominiums

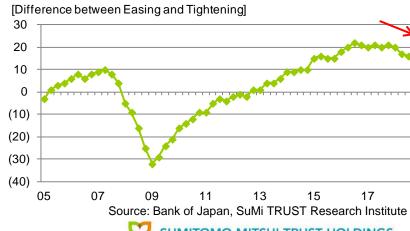
Steady growth expected for residential condominiums

### (Investment properties)

Lending criteria tightening of banks due to problems in buy-to-let multi-unit apartment investment loans

Some adjustment observed in medium/small sized real estate companies' inventory

#### Property sector lending attitude DI



### 2. Business strategy for brokerage

### Main initiatives for our brokerage business

### Aim

Offer high value-added solutions for real estate

To differentiate ourselves through solution-based marketing for professional investors and corporations

Accurate assessment of client needs and market trends

To boost profit by grasping "trending" sector of the market

Strengthen alliances with regional financial institutions

Increase of transactional opportunities, pursue stable source of profit

4 Strengthen retail brokerage

orporate

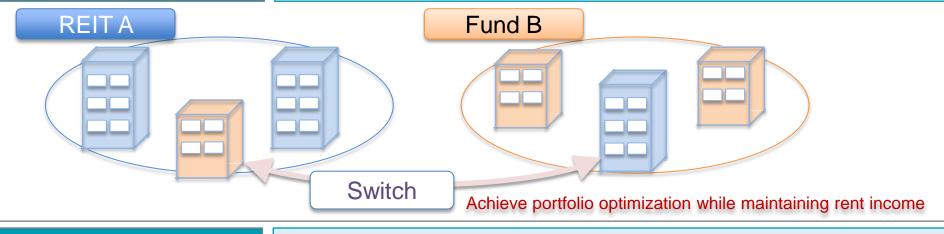
client

arena

# 2. Business strategy for brokerage: (1) To offer high value-added real estate solutions

Example of proposal for professional investor

Proposed property swap between professionals based on each player's investment criteria, portfolio analysis and current property holding



# Example for corporations

Proposal for property utilization and value maximization based on client's business strategy

### Corporation C

Cash needs for M&A preparation

Optimization needs of business locations

Value maximization

City center
Under utilized location

prioritize immediate cashing needs, divestment of property as is (zoning: industrial estate)

or

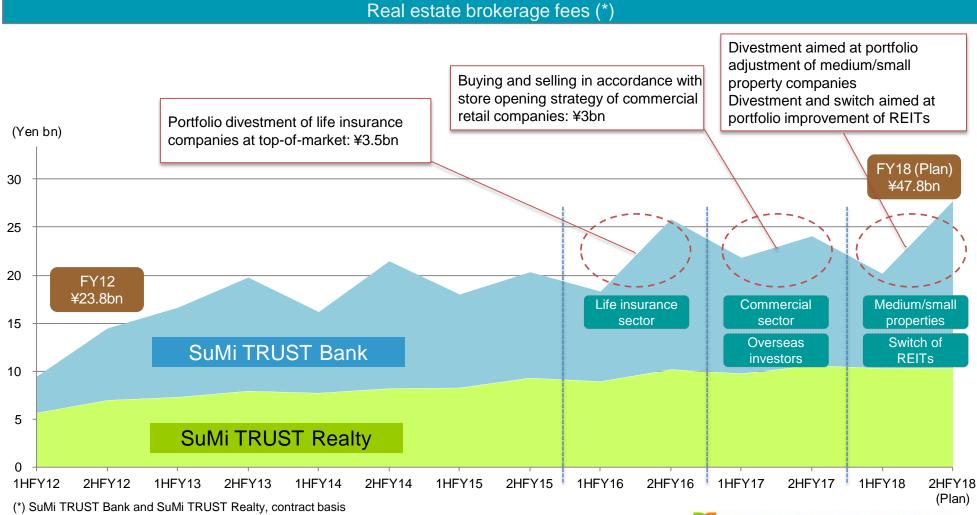
taking time to divest to maximize property value by re-zoning application and approval

Value maximization in accordance with cashing timing requirement of each client



### 2. Business strategy for brokerage: (2) Accurate grasp of client needs and market trends

- ✓ By grasping changes in market sentiment and changes by client attributes, recognize "trending"
  markets and mobilize resources to capture market ahead of competition
  - ⇒ To generate incremental profit



### 2. Business strategy for brokerage: (3) Strengthen alliances with regional financial institutions

- ✓ Upshots from alliances growing steadily
- ✓ Expansion of medium sized transactions from strengthening and qualitative improvement of alliances

Initiatives to expand business opportunities from alliances with regional financial institutions

20-man team dedicated to processing regional properties from alliance member banks

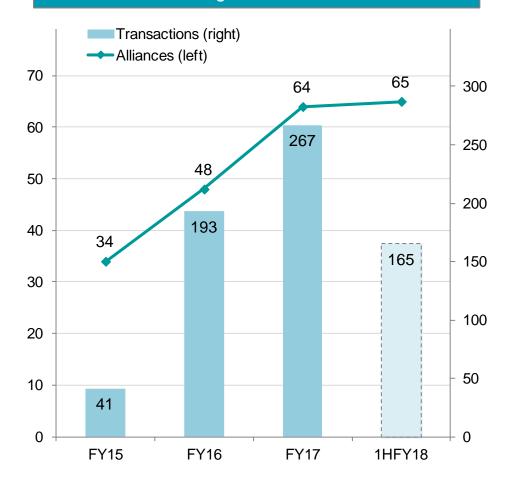
Medium sized property needs of non-SuMi TRUST client base picked up through alliance network with major regional financial institutions

Utilize our bank's real estate transaction closing knowhow to contribute to profit generation and to compliment functionality of alliance member banks

Hosting of study groups and other activities to enhance quality of the alliance to further invigorate the relationship

Expand transaction possibilities
Pursue stable earnings base

### Alliances with regional financial institutions



### 2. Business strategy for brokerage: (4) Strengthening our activities for retail properties

- ✓ In the retail brokerage market, to aim for transaction numbers while not excessively pursuing larger transactions
- ✓ To capture a stable source of income with tailwind of expanding market

### SuMi TRUST Realty Brokerage transactions

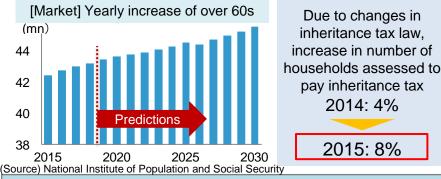
Brokerage fee increasing in line with growth in number of closed transactions



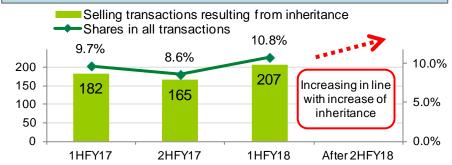
#### Increase in inheritance related needs

Stable growth of transaction opportunity expected due to aging of population and increase in inheritance tax assessable households

### Environment surrounding inheritances



#### Real estate divestment due to inheritance (\*)



<sup>\*</sup> Number of real estate transactions signed with individual clients at SuMi Trust Bank that resulted from an inheritance event



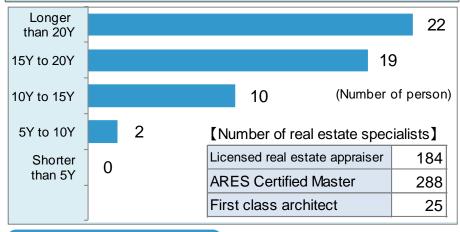
# 3. HR policies to support our brokerage business (SuMi TRUST Bank)

- ✓ For corporate clients: assign staff with ability to close large transactions possessing top market talent
- √ For retail clients: to offer real estate consulting mobilizing our retail TS branch marketing staff

### For corporate client brokerage

Knowledge, experience, contacts and solution offering ability required, so assign staff with ability to close large transactions possessing top market talent

### Real estate business experience of managerial staff



### For retail client brokerage

Branch marketing staff in retail TS division to offer real estate consulting ability of a trust bank

#### To mobilize branch marketing staff in retail TS division

Numerous staff outside of real estate division holds certified real estate transaction specialist license

To mobilize these staff to cope with increasing retail client real estate demand

[ Number of license holders at SuMi Trust Bank ]

| Li | censed real estate broker                   | Over 5,500 |
|----|---|------------|
|    | <ratio holders="" license="" of=""></ratio> |            |
|    | Employee (General & Global course)          | 73%        |
|    | Employee (Area course)                      | 24%        |

Utilizing AI and other digital technologies

# Corporate properties Size: large

High
← Uniqueness of each → Low property

Retail properties Size: Small



Single-family home

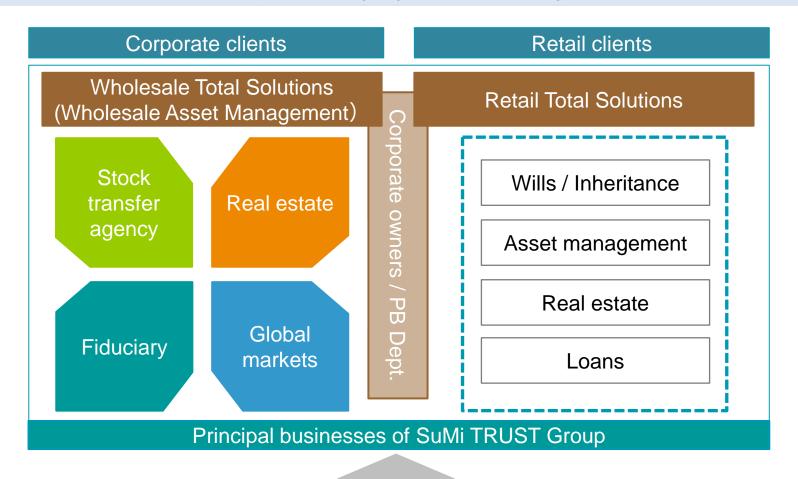
Resale condominiums

New condominiums

# Digitalization strategy

### Overall view of strategy and digitalization strategy

- ✓ To offer total solution services derived from comprehensive fusion of trust and banking services.
- √ To create added value for clients by endorsing digitalization strategy unique to SuMi TRUST



Digitalization strategy

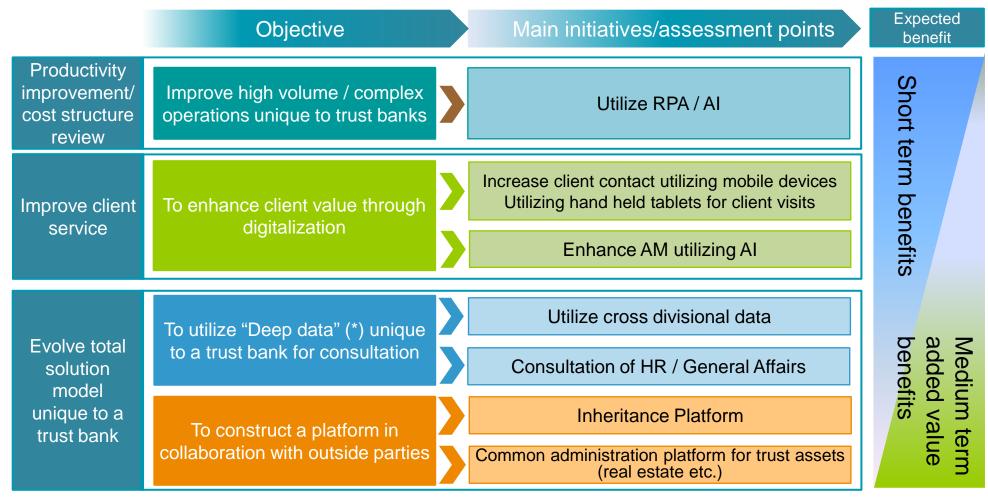
### Digitalization strategy: Overall picture

✓ Two-pronged strategy to strengthen our businesses in 4 domains (Important initiatives) and to establish organizational structure to execute these strategies

 $\overline{\circ}$ to create new added use digital technology value for clients To use digital To create a trust bank technology to create unique open platform IT added value for Business accessible by Architecture style clients outside parties Implementation Framework To increase added value of existing technology/assets Investments Organizational to achieve structure Cross divisional total strategy HR solution Refinement of complex, utilizing information burdensome trust bank unique unique back office to a trust bank operations To strengthen/improve efficiency of existing businesses Create added value through cross divisional and external alliances SUMITOMO MITSUI TRUST HOLDINGS 14

# Promotion of Digitalization strategy

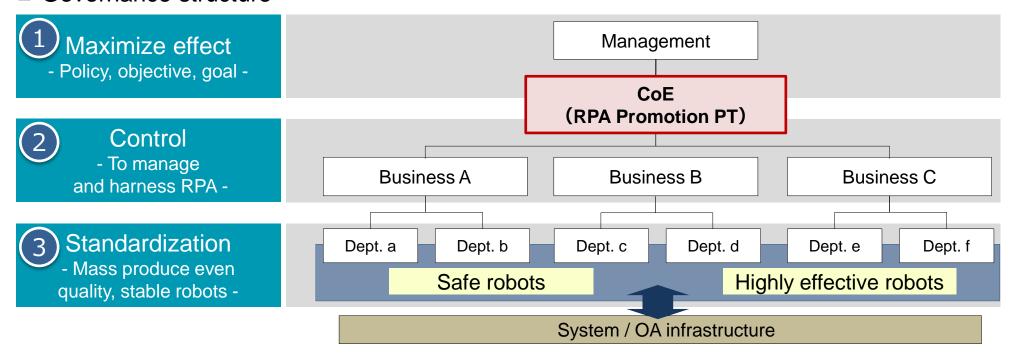
- ✓ To strengthen and rationalize existing workflow such as productivity, OHR, and improvement of client services
- ✓ Add value to clients by utilizing data and knowhow unique to a trust bank



<sup>(\*)</sup> Detailed data for specific segments such as trust related businesses

### Case study: Improvement of high-volume, complex administrative work unique to trust business

- ✓ To improve productivity by defining governance policies prior to RPA introduction.
- ✓ Success in offering high quality services to cope with low volume, multi-variety and complex administrative work unique to trust businesses
- Governance structure



- 1 Maximize effect: Reduce 500 thousand work hours in 3 years
- Control
   By introduction of a control server configuration, to monitor robots in action and establish centralized control
- 3 Standardize : Adherence to operational guidelines, clearly defined rules for operation and maintenance

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# Case study: Enhance value offered to clients through utilization of digital technology

- ✓ Launched Next generation trust type branch by utilizing digital technology
- ✓ Offering of total solution services tailored to individual clients' needs



terminal

Next generation trust type branch: Inter-generational, client congregating, trust bank unique, consulting floor

Efficient operation and rationalization through utilization of digital technology



Evolution of client consultation services

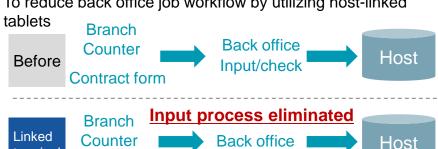
Example of digital technology deployment: Branch terminals are no longer mere operational terminals and have evolved into terminals to support client consultation

> Hand held tablets for client visiting marketing officers linked directly to host computer, and these tablets now used at branch counters in Next generation trust type branches

### Aim to achieve zero administration work

- Target 70% reduction of branch level administration work -

To reduce back office job workflow by utilizing host-linked



Check

### To enhance value offered to clients

- To concentrate human, physical and time resources to provide total solution services -

Branches to focus on marketing and endeavor to offer total solution to clients utilizing our broad range of products and services unique to a trust bank

Refine consultation services

East to enter consultation space

Simplified contract signing process

Increase information provided to clients

Contract form

### Case study: Utilization of Deep Data unique to trust banks for consultation

- ✓ Data obtained from a broad range of specialized fields unique to a trust bank is our source of competitive advantage
- ✓ To create added value for clients by utilizing data and know how unique to trust bank

What's Deep Data?

Asymmetric and in-depth data that captures the characteristics of a certain client segment

Data obtained from our wide-ranging specialized businesses Deep Data that integrates data across Digital group/business divisions Technology Client Corporate characteristics characteristics Deposits/ Loans Analytics Al Banking FX / Derivatives / M&A Asset Mgt. / Admin. Asset Corporate pension Management / Admin. Stock transfer agency Blockchain Real estate brokerage / construction consulting Real estate, Real estate securitization etc. IoT

### Ideas for data utilization

By offering high value-added products and services, achieve win-win with business partners and other stakeholders such as local communities Environment G Energy R S

### Case study: Platform design in coordination with external firms

- ✓ To promote digitalization strategy through fusion of know-how of trust banks and new technology.
- ✓ Aim to contribute to development of new market through offering of new services and creation of new client base

#### Press release on December 12, 2018 (Except)







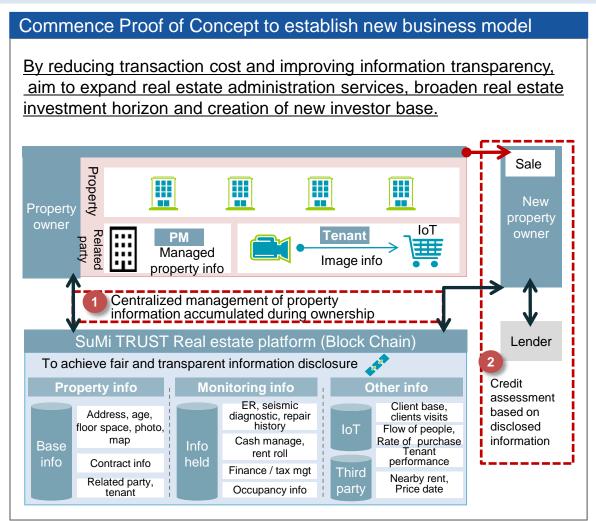
December 12, 2018

To whom it may concern

Sumitomo Mitsui Trust Holdings, Inc. Sumitomo Mitsui Trust Bank, Limited

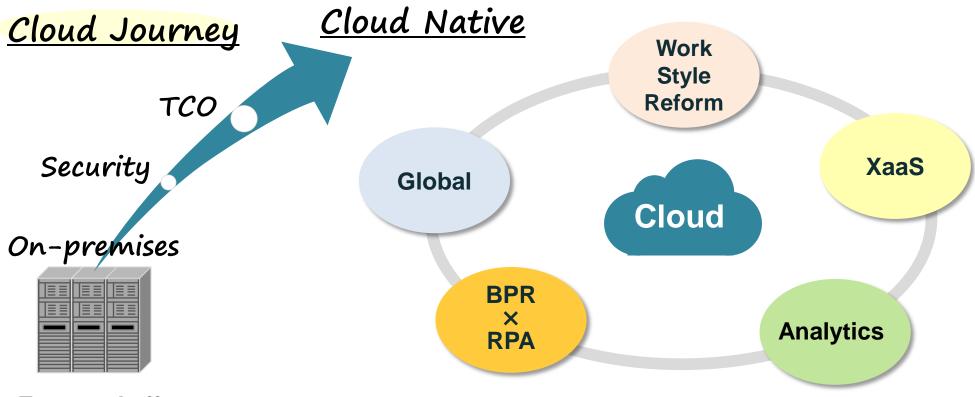
Notice regarding Commencement of Proof of
Concept utilizing Blockchain Technology
in Real Estate Business

Sumitomo Mitsui Trust Bank, Limited (President: Masaru Hashimoto, hereinafter "SuMi TRUST Bank") hereby announces the commencement of Proof of Concept (hereinafter, "PoC") of implementing Blockchain, one of the leading-edge technologies in the area of real estate business. SuMi TRUST Bank will utilize its expertise in real estate business cultivated as Japan's only financial group specialized in trust banking group.



### Organizational structure (IT Architecture)

✓ To promote "cloud first" by establishing COE within IT Department



### **Expected effects**

- Optimization of low-volume, multi-variety processes

  Emphasis of cost-benefit and implementation speed
- Expand mission critical areas

  Expand application areas to target our core IT systems
- 3 <u>Digital-Transformation</u>
  IT and business reformation through agile deployment

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# Governance

# Today's Agenda

- 1. Self-introduction
- 2. Reformation of governance
- 3. Current governance structure
- 4. Changes due to transition to company with Audit Committee
- Viewpoint of audit activity
- 6. Audit Committee activity
- 7. Governance issues

# 1. Self-introduction

| Career Summary   |  |  |  |  |  |  |
|--|--|--|--|--|--|--|
| Apr. 1971  | Joined Marubeni-Iida Co., Ltd. ("MC") (currently, Marubeni Corporation)  |  |  |  |  |  |
| June 2001  | Appointed Executive Officer and General Manager of the Finance Department of MC  |  |  |  |  |  |
| Apr. 2002 Appointed Executive Officer and General Manager of the PR/IR Department of M |  |  |  |  |  |  |
| Sept. 2002   | Retired from his position as the Executive Officer of MC   |  |  |  |  |  |
| Jan. 2003  | Joined Ernst & Young Global Finance Services Co., Ltd.   |  |  |  |  |  |
| July 2005  | Appointed Representative Director of Ernst & Young Transaction Advisory Services Co., Ltd. ("EYTAS")   |  |  |  |  |  |
| July 2009  | Appointed Representative Director and CEO of EYTAS   |  |  |  |  |  |
| July 2010  | Appointed Managing Director, General Manager of the Accounting and Business Development Division of the Global Markets Office of Ernst & Young ShinNihon LLC |  |  |  |  |  |
| May 2013   | Appointed Representative Director, President and CEO of Japan Industrial Solutions, Ltd. ("JIS")   |  |  |  |  |  |
| June 2013  | Appointed Corporate Auditor (External Auditor) of SuMi TRUST Holdings  |  |  |  |  |  |
| July 2014  | Appointed Director of UNITIKA LTD.   |  |  |  |  |  |
| June 2015  | Appointed Director of Sharp Corporation  |  |  |  |  |  |
| Oct. 2016  | Appointed Representative Director, CO-CEO of JIS   |  |  |  |  |  |
| Jan. 2017  | Appointed Director of Meikoshokai Co., Ltd. (Current Position)   |  |  |  |  |  |
| June 2017  | Appointed Director of SuMi TRUST Holdings (Current Position)   |  |  |  |  |  |
| Dec. 2018  | Appointed Chairman & Representative Director of JIS (Current Position)   |  |  |  |  |  |

# 2. Corporate governance system reform

Corporate governance after transition to a company with three committees (since June 2017)

# Segregation of execution and oversight at Meeting of the Board of Directors

- ✓ Delegation of (most) execution of duties to executive officers
- ✓ The Board of Directors to focus on oversight of execution of duties by executive officers and directors
- ✓ Periodical reporting on status of enactment of executive officers and directors to the Board of Directors

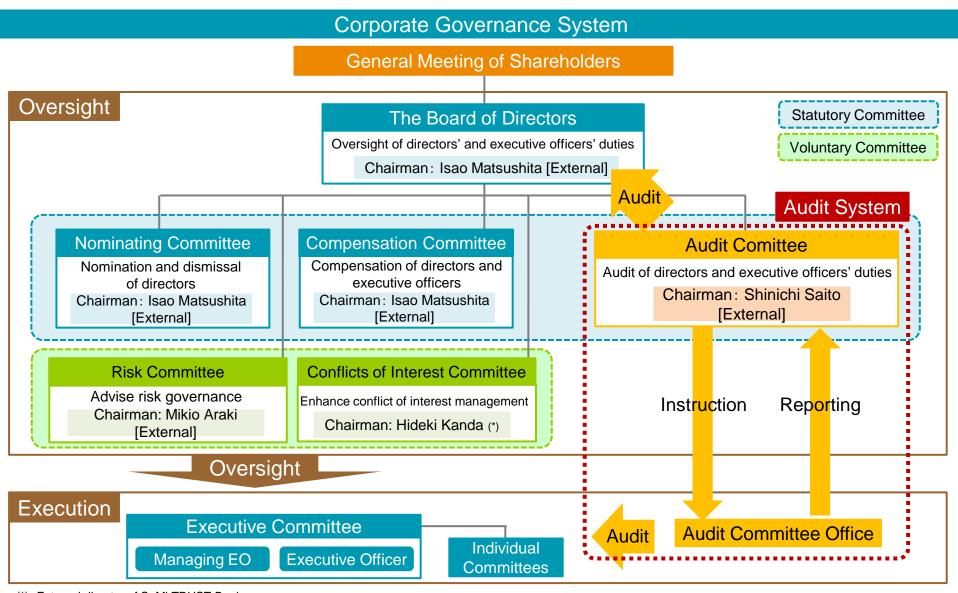
# Oversight of Board of Directors enhanced by appointment of external directors

- ✓ Increased appointment of external directors (3 out of 10 directors, currently 7 out of 15)
- ✓ Chair of Meeting of Board of Directors, statutory and voluntary committees held by external director

# Clarification of function/role between holding company and trust bank

- ✓ Holding company to <u>devise Group's overall vision and management strategy</u>
- ✓ Holding company to strengthen leadership and oversight of Group companies

### 3. Corporate governance system



<sup>(\*)</sup> External director of SuMi TRUST Bank
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4. Changes due to transition to company with Audit Committee

### Role of Audit Committee

✓ An organization to undertake audit function on behalf of the Board of Directors

Example: Audit of directors'/executive officers' execution of their duties Audit of operations and assets

# Audit of operations and assets

Organizational audit (utilizing internal governance framework)

### Effect of transition

- Improvement in effectiveness and efficiency of audit
- Strengthened audit function of Board of Directors

# Viewpoints of audit activity

| Objective of audit                          | Viewpoints emphasized for audit activity                                |
|---|---|
| Healthy and sustainable growth of the Group | Enhance transparency of management Monitoring of management through KPI |
| To fulfill social responsibility            | To foster healthy and impartial corporate                               |
| To establish high quality corporate         | climate   |

# Points to note for audit activity

- ✓ Importance of "coordination/dialogue" to achieve efficient and pragmatic audit
  - External directors
  - Other committees
  - •1st line of defense (Business division)
  - •2nd line of defense (Internal governance division)
  - •3rd line of defense (Internal audit division)
  - Statutory auditor of each group company
  - External audit firm

# Attendance to meetings and committees

| Type of activities       |                          | Annual attendance      | Attendance          |
|--------------------------|--------------------------|------------------------|---------------------|
|                          |                          | (Oct. 2017-Sept. 2018) | (⊚:All, O:Partial)  |
| Audit Commit             | ttee                     | 16                     | 0                   |
| Meeting                  | Board of Directors       | 15                     | 0                   |
| attended                 | Executive Committee      | 109                    | Full-time corporate |
| allended                 | Other committees         | 72                     | auditors attend     |
| Dialogue with            | President                | 2                      | 0                   |
| Dialogue with            | executive officers       | 8                      | 0                   |
| Dialogue with In         | nternal Audit Department | 35                     | 0                   |
| Dialogue with            | 內部統制部門 etc.              | 60                     | 0                   |
| Dialogue with            | external auditor         | 21                     | 0                   |
| On-site review           | N                        | 15 locations           | 0                   |
| Coordination w companies | ith auditors of Group    | Constantly(*)          |                     |

Group company auditor conference held 3 times per annum

# Important audit agenda

- Group management function of holding company, enhancement of group governance
- √ IT/business process strategy
- Risk Appetite Framework (RAF) based capital allocation and fostering of risk culture
- Establish global wide risk management framework

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