

Top Message at Investor Meeting

This message was delivered by Toru Takakura, President of Sumitomo Mitsui Trust Holdings at the beginning of the investor meeting, held on November 18, 2021.

Note: The number of pages in the text refers to the presentation materials (Investor Meeting on Financial Results for 1HFY2021). Please click on the link below to access the presentation.

<https://www.smth.jp/english/-/media/th/english/investors/presentation/E211118-1.pdf>

This is Takakura of Sumitomo Mitsui Trust Holdings.

Thank you very much for participating in our Investor meeting today.

The presentation was posted on the website yesterday, along with a video, but some of you may not have had the opportunity to view it yet.

It is also an opportunity to talk directly with you.

Observing our stock price movements after our financial closing, I have a feeling that we may not have adequately conveyed our thoughts on strategies and actual implementation of them. Therefore, I would like to start by summarizing the three points that I would like to convey most.

First of all, I would like to talk about the Net business profit before credit costs.

In conclusion, with regard to the performance of the first half and the forecast for the second half, in other words, the overall forecast for the full financial year, the entire Group is expected to achieve the level of the final year of the Medium-Term Management Plan ahead of schedule.

The second point is Net income.

I would like to say that we shall achieve our Medium-Term Management Plan ahead of schedule, with Net income of 110 billion yen for the half year and 72% of the initial forecast.

However, at this point, we could not draw a clear picture regarding the financial results at the end of the fiscal year with regard to our initiative to reduce strategic shareholdings while making progress in restoring the soundness of our equity hedging portfolio as stock prices remain elevated.

The financial forecast was decided based on these first and second points. In other words, while we have increased our forecast for Net business profit based on the expectation that we will achieve our Medium-Term Management Plan ahead of schedule, even excluding non-recurring profits, we have decided not to revise Net income.

Since we have been gaining top line earning power, we would like to finish this fiscal year with Net income in line with its upward trajectory, and make a strong start for the next fiscal year, while simultaneously accelerating the reduction of strategic shareholdings.

The third point is capital.

The CET1 ratio on a Basel 3 finalized basis was 9.9%.

We have almost reached the point of capital accumulation with which we are comfortable, and we would like to focus more on the use of capital in the future.

Since yesterday, some media reported our plan of "500 billion yen of equity investment in various projects related to climate change and decarbonization," we plan to use our capital in a well-balanced manner to invest in such "Impact equity(*)", make strategic investments to strengthen our trust banking business, and repurchase our own shares.

(Note: As explained in the presentation, the equity investments will be made for inviting investors for both equity and senior debt investment which will lead to expand our fee business such as asset management and asset administration.)*

These three points are the messages that I would like to convey to you.

Now, please allow me to briefly explain the key points of the presentation.

Please turn to page 5.

This page explains the factors of the year-on-year change in Net business profit.

Although there was contribution from a non-recurring profit items of around ¥20 billion in Effective interest related earnings, Net fee and commission and related profit increased by ¥24 billion year on year. We are seeing the effects of our business initiatives in areas that are unique to a trust banking group, such as investment management consulting, real estate brokerage, asset management and asset administration.

Please go back to page 4.

As I mentioned earlier, we did not make change to the forecast of Net income at this time. However, please understand that this is a deferral based on the assumption that we will review it again in the third quarter or later.

In addition, I would like to explain a little about hedging of strategic shareholdings using bear-type investment trusts.

First, although there is an unrealized valuation loss on the hedge portfolio, the net of the valuation gain on strategic shareholdings is about 450 billion yen. Also, it has achieved the objective of mitigating capital fluctuations.

We still need to improve the soundness of hedging portfolio regarding several bear-type investment trusts with high valuation loss ratios in the second half of the fiscal year. We plan to resolve this issue through various efforts such as accelerating the realization of gains on sales of cash equities.

Our policy is to minimize risk carried over into fiscal 2022, while at the same time aiming to post a final profit in the current fiscal year, based on the fact that our core earning power has improved.

Next, I would like to talk about our business strategy and our strategy for steady growth and higher ROE.

Please turn to page 8.

In order to improve ROE, we will strive to achieve steady profit growth in the numerator and improve capital efficiency in the denominator.

I will focus on the key points regarding the numerator and denominator.

Let's start with the numerator.

Please turn to page 10.

Unlike commercial banks, the Group has numerous points of contact in the capital markets and in the lifecycle cycle of individuals. The more we meet the needs of companies, investors, and individuals, and the more the circulation progresses, we shall be able to further increase the points of contact and business opportunities, and we can enhance our profitability, especially in the fee business.

That is our basic strategy.

Please see page 12.

In order to promote circulation, it is necessary to create new businesses in society.

We shall use our balance sheet as an opportunity to do so, but another strength of the trust banking group is that we can utilize investors' funds and provide investment opportunities to them.

As shown in the figure on the right, we can also improve our ROE by enhancing our fee business.

Please turn to page 13.

We are considering the use of equity to address corporate and social needs such as climate change.

However, equity investment is positioned as a trigger to mobilize investor funds.

This is because once investor funds start to move, our fee businesses such as asset management, asset administration, and other services will grow and lead to higher ROE.

As for the capital to be used, we expect to allocate a portion of the capital released from strategic shareholdings as the form of our ties with our client companies changes.

Please turn to page 16.

Real estate related business is a unique function of the trust banking group.

After Covid-19 pandemic, the need for companies to review their real estate is increasing.

And the business pipelines at the beginning of the second half of this fiscal year are at the same level as the second half of last fiscal year, when we posted record profits.

Next, I would like to talk about measures for fulfilling investor needs.

Please turn to page 19.

As excess liquidity continues, the need to invest in private assets and real assets is increasing. The provision of investment opportunities in private assets, such as private equity, utilizing SuMi TRUST Bank's know-how has been steadily increasing.

Real estate investment, on page 20, is another area where steady gains can be expected once travel restrictions are lifted.

Next, I will talk about strategies for individual clients, so please proceed to page 26.

The super-aging society is usually a headwind, but for us it provides a business opportunity to provide safe and secure services.

As you can see in the lower right corner of this page, when clients sign a will trust contract with us, we have more opportunities to do various business with them while they are still in good health.

Please turn to page 27.

Our transactions with senior clients are steadily leading to transactions with the next generation. As you can see on the bottom left, after executing a will or conducting related services, real estate brokerage transactions have been concluded with about 7% of heirs.

Next, I would like to talk about the efficiency of capital in the denominator.

Please see page 35.

As I mentioned earlier, as of the end of September, the CET1 ratio on a Basel 3 finalization basis was 9.9%.

Due to our progress in promoting a business model that is unique to a trust banking group and the prospect of reducing strategic shareholdings, we have almost reached the point of capital accumulation with which we are comfortable.

How to effectively utilize the capital, over 100 billion yen of profit after dividends per year is positioned as an increasingly important management issue.

In order to achieve sustainable growth and higher ROE, we plan to use the capital in a well-balanced manner for "strengthening businesses unique to a trust banking group," "equity investments that contribute to solving social issues," and "share buybacks," as described on the right.

Please turn to page 37.

From the perspective of improving capital efficiency, we are steadily reducing our strategic shareholdings.

As you can see on the upper left, we have started to discuss concrete schedules with about 20% of our clients.

As you can see on the bottom left, we have already sold or obtained agreements to sell approximately 45% of the 100 billion yen we are targeting to reduce over the next two years. The number of such companies has increased from 10 at the beginning of the fiscal year to 180. Please turn to page 40.

I would like to talk about the shareholder return through dividends.

As with our earnings forecast, we have kept our initial dividend forecast for FY2021 unchanged at this time, but we will consider revising the forecast in accordance with our policy of aiming for a dividend payout ratio of 40%.

This concludes my presentation.