

1. Basic Policy

Under the following management principles, Sumitomo Mitsui Trust Group (the “Group”) will establish a management structure that it deems appropriate for a leading trust bank group which boasts the largest scale and highest status in Japan, combining the banking, asset management and administration, and real estate businesses.

—Management Principles—

- Swiftly provide comprehensive solutions to its clients by fully utilizing its significant expertise and comprehensive capabilities.
- Adhere to the principles of sound management based on a high degree of self-discipline with the background of “Trustee Spirit” and establish strong credibility from society.
- Strive to fulfill all shareholder expectations by creating distinct values through fusing the various functions featuring the trust bank group.
- Offer a workplace where the diversity and creativity of its employees are more fully utilized to add value to the organization and where employees can have pride and be highly motivated in fulfilling their missions.

2. Outline of Corporate Governance System

(1) Role of Sumitomo Mitsui Trust Holdings in the Group

In the Group, there is a management structure which allows Sumitomo Mitsui Trust Bank, Sumitomo Mitsui Trust Asset Management, Sumitomo Mitsui Trust Research Institute and Sumitomo Mitsui Trust Capital to pursue their respective business activities in an independent manner. As a holding company, Sumitomo Mitsui Trust Holdings focuses on the management of business operations, taking responsibilities for the following functions:

- Formulating group management strategy,
- Allocating management resources,
- Monitoring administration of business activities,
- Supervising risk management,
- Supervising compliance management and
- Managing internal auditing.

In addition, regarding Japan Trustee Services Bank (SMTH holds 66.6% of its capital), a council was established with Resona Bank, Ltd., a joint capital investor, to discuss important matters concerning Japan Trustee Services Bank and to monitor the status of its business activities, etc.

(2) Business Execution and Supervision System

In the Group, some of the directors of Sumitomo Mitsui Trust Holdings are concurrently directors at subsidiary trust banks and are responsible for ensuring effective implementation of business strategies within the Group. The director of Sumitomo Mitsui Trust Holdings, who does not hold concurrent positions at subsidiaries, supervises internal auditing and cements the checking function against subsidiaries. With greater management transparency in mind, especially given the rapid transformation of the business environment, the term for all directors has been set at one year.

The majority of our corporate auditors are external auditors to ensure the independence of the audit function, and this contributes to a system that can perform sufficient audits. In addition, some of the corporate auditors hold concurrent positions as auditors at Sumitomo Mitsui Trust Bank and other subsidiaries, and a system is in place to audit the management of subsidiaries.

Under the Board of Directors is established the Executive Committee, chaired by the President with participation of relevant officers. The Executive Committee addresses material issues relating to the execution of business activities, in line with basic policy established by the Board of Directors, and undertakes preliminary discussions pertaining to the Board of Directors' resolutions.

The Council to Promote Business Revitalization Plan and the CSR Council have been established, and other committees such as the Business Management Committee have also been established.

This system works for the transparency and soundness of management, and for faster decision making.

(3) Internal Control

An internal control system is designed to prevent the occurrence of misconduct by putting various mechanisms and rules into place for the purpose of conducting sound management in the company. Basically, there are four objectives: (1) effectiveness and efficiency of operations, (2) reliability of financial reporting, (3) compliance with laws and ordinances concerning business activities, and (4) safeguarding of assets. A company achieves these objectives by developing and operating its internal control system.

At Sumitomo Mitsui Trust Holdings, in order to accomplish the four above-mentioned objectives, the Board of Directors decides on the Basic Policy on Internal Control, for development of the following systems: (1) Compliance system, (2) Risk management system, (3) Business execution system, (4) System to obtain transparency of management, (5) Management system to ensure the appropriateness of operations at the Group, (6) Information storage and management system, (7) Internal auditing system, and (8) System regarding audits by corporate auditors. For the systems that have been developed and operated based on these policies, please refer to pages 62–71.

(4) Audit

Sumitomo Mitsui Trust Holdings has adopted a corporate auditor system, with a Board of Corporate Auditors comprised of two full-time auditors and four part-time auditors (external auditors), a total of six corporate auditors.

In accordance with the policy on audit and the allocation of duties determined by the Board of Corporate Auditors, the corporate auditors attend the Board of Directors and

other important meetings, and receive reports from directors regarding the status of execution of duties. They also browse important documents, investigate the headquarters, receive business reports from subsidiaries as necessary, etc. They thereby audit the directors' execution of duties.

The full-time corporate auditors work to share information with part-time corporate auditors at the Board of Corporate Auditors and liaison meetings by giving them reports on audit information collected in daily audit activities. These include information on proposals at important meetings such as the Executive Committee, and the content of investigations of Sumitomo Mitsui Trust Holdings and subsidiaries. Part-time corporate auditors perform auditing from multi-faceted perspectives, such as legal and corporate management ones, in addition to stating their opinions at the meetings of the Board of Directors and Board of Corporate Auditors, etc.

Corporate auditors hold periodic meetings with the Independent Auditors, receiving auditing information, as well as reports on auditing plans, status of auditing performed, auditing results, etc., in addition to exchanging opinions and sharing information as needed. They also monitor and verify whether the Independent Auditors maintain an independent standpoint and perform auditing appropriately.

At periodic meetings with the internal audit unit, corporate auditors receive reports and exchange opinions on internal auditing results, give recommendations and indications to the internal audit unit, and exchange information as needed. This system works to maintain the effectiveness of auditing by corporate auditors and to build strong cooperation among the three types of auditing: internal auditing, auditing by Independent Auditors, and auditing by corporate auditors.

Regarding internal auditing*, an internal audit unit is established which is independent of units pertaining to business execution. The internal audit unit creates the policy on development of internal auditing system and internal auditing plans of the Group, performs internal auditing for each business execution unit, and indicates and recommends points to be improved. It also periodically and appropriately reports to the Board of Directors on internal auditing results and status of progress and achievement of the internal auditing plans.

* For details concerning internal auditing, please refer to page 71.

• Corporate Governance System

