

Management Structure: Risk Management

1. Basic Initiative Policy

New risks are appearing that also affect financial markets: Europe's debt problems, economic stagnation in China and other emerging countries. There is also a need to further develop risk management systems in response to new bank BIS capital adequacy regulations (Basel III). In this environment, Sumitomo Mitsui Trust Holdings ("SMTH") thinks that there is an increasing need for more advanced risk management and preventive action.

As the trust bank group which boasts the largest scale and the highest status in Japan, SMTH positions the establishment of a risk management system suited to the characteristics of its operations and environmental changes as one of the most important management issues. Accordingly, SMTH is making constant efforts to enhance and advance its risk management, which forms the basis of business operations for the expansion of the business scope and sustainable growth of Sumitomo Mitsui Trust Group (the "Group").

In the fiscal year 2012, SMTH will flexibly and accurately respond to change in the risk structure resulting from external environmental changes and the management integration, and develop practical and efficient risk management system, leveraging the strengths of the Group.

2. Outline of Initiatives

(1) Types of Risk

SMTH classifies risk categories by the cause of risks faced by the whole Group in business operations into "Credit risk," "Market risk," "Funding risk," and "Operational risk." It manages these risks according to the characteristics of respective risks.

(2) Risk Management Methods

SMTH has established a department to supervise the overall group risk management and monitor the risk status of the whole Group, and has designated other risk management-related departments to supervise risk management for each risk category. These departments provide appropriate supervision and guidance to the Group companies as needed.

SMTH has also established the Risk Management Rules covering the basic points of risk management for the whole Group. It has clarified the authority and organizational structure so that it can appropriately perform a series of activities, which include risk identification, assessment, monitoring, control and reduction. SMTH has also created risk management policies and plans (the Risk Management Plan and the Risk Capital Allocation Plan).

• Risk Categories

Risk Category	Definition
Credit Risk	Risk that the Group incurs losses due to the value of an asset (including off-balance sheet assets) decreasing or impairing owing to such reasons as deterioration in the financial condition of an obligor. Of this, "country risk" in particular means risk that the Group incurs losses on credit provided overseas, due to foreign exchange, political and economic conditions of the country of the obligor.
Market Risk	Risk that the Group incurs losses due to fluctuations in the value of assets/liabilities (including off-balance sheet assets/liabilities), or in the earnings generated from assets/liabilities, due to fluctuations in various market risk factors, such as interest rates, foreign exchange rates, stocks, commodities, and credit spreads. Of this, "market liquidity risk" in particular means risk that the Group incurs losses caused in a situation where it becomes impossible to conduct transactions in the market or becomes obligatory to trade at prices significantly disadvantageous than usual due to market turmoil.
Funding Risk	Risk that the Group incurs losses in a situation where it becomes impossible to secure necessary funds or becomes obligatory to raise funds at interest rates significantly higher than usual.
Operational Risk (Below are "risk sub-categories")	Risk that the Group incurs losses resulting from inadequate or failed internal processes, people and systems or from external events.
Business Processing Risk	Risk that the Group incurs losses due to inappropriate business procedures arising from executives or employees neglecting to engage in proper business activities, or other incidents such as accident or fraud.
Information Security Risk	Risk that the Group incurs losses because information assets are not properly maintained or managed. This includes information leaks, incorrect information, an inability to use the information system or misuse of information.
System Risk	Risk that the Group incurs losses due to such reasons as computer system failure, malfunction and defects, as well as the risk that the Group incurs losses due to unauthorized use of a computer.
Legal & Compliance Risk	Risk that the Group incurs losses due to uncertain legal aspects of transactions, or due to insufficient compliance with laws, regulations, etc.
Human Resource Risk	Risk that the Group incurs losses due to personnel and labor management issues, such as unequal or unfair management of personnel and harassment.
Event Risk	Risk that the Group incurs losses due to external events that impair business, such as natural disasters, crimes such as terrorism, damage to public infrastructure that prevents its functioning, the spread of infectious diseases, and the inappropriate use or management of tangible assets.
Reputational Risk	Risk that the Group incurs losses as a result of deterioration in reputation for SMTH or its subsidiaries, owing to such reasons as mass media reports, rumors or speculation.

The Group companies develop appropriate risk management systems suited to the characteristics of their own operations and risks, based on SMTH's policy concerning risk management.

(3) Risk Management Structure

The roles and responsibilities of the management structure and principal departments related to risk management are as follows.

1) Board of Directors

Clarifies the Group's management policy and strategic goals, formulates the risk management policy based on the strategic goals, supervises development of appropriate risk management system, and implements appropriate measures to raise awareness of the risk management policy throughout the Group.

2) Directors, Officers in Charge

Directors are fully aware of the importance of risk management, and officers in charge of risk management-related departments consider policies and specific measures for developing and establishing proper risk management systems.

3) Risk Management-related Departments

Accurately recognize risk status, and conduct appropriate management and operations regarding risks, through a series of activities, which include risk identification, assessment, monitoring, control and reduction.

4) Internal Audit Department

Verifies the appropriateness and effectiveness of risk management system as a department independent of business execution.

(4) Enterprise Risk Management and Integrated Risk Management (Economic Capital Management)

SMTH manages various risks in its Group and comprehensively measures risks unique to the Group organization which each group company cannot recognize alone, such as spread of risks within the Group. It manages these risks by comparing them with the Group's overall financial strength (Enterprise Risk Management).

In addition, among the risks subject to the Enterprise Risk Management, SMTH combines risks which are quantifiable with a unified criteria such as the integrated VaR*, and manages these risks by comparing them with the Group's overall financial strength, which is indicated by its capital efficiency (Integrated Risk Management). Aiming to simultaneously secure both capital adequacy and efficiency of capital use, the Integrated Risk Management seeks to comply with risk limits set based on risk capital allocated within the financial strength and pursues maximum risk-return.

* Value at Risk (VaR): Risk amount measurement indicator. The maximum amount of loss anticipated within a certain period (the holding period) within the range of certain probability (the confidence interval). SMTH is applying a measurement with a one-tailed confidence interval of 99%.

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