

1. Basic Philosophy

Although the turbulence in the financial market triggered by the collapse of a major U.S. financial institution expanded around the world and caused a rapid deterioration of the real economy, the global economy posted a moderate recovery thanks to the effect of the massive fiscal and monetary policies implemented by the major economies. However, we are still in a situation where we have to be prepared to cope with new risks, with the problem of fiscal deficits in Europe becoming a destabilizing factor late last year. Under such circumstances, it has become increasingly important for us to enhance and advance our risk management.

Sumitomo Trust regards the establishment of a risk management system suited to the characteristics of businesses as one of the most important management tasks. Accordingly, we are making constant efforts to enhance and advance our risk management, which forms the basis of the expansion of the business scope and the sustainable growth of the STB Group.

During the current fiscal year, we are promoting the reform of the risk management process, such as making risk management more efficient by reviewing the business flow, while ensuring the improvement and efficiency of the management system for facilitating loans to SMEs, in addition to strengthening risk management to address risks encountered in the future expansion of overseas operations. Regarding international credit investments, including securitized products, we have transferred a portion of such assets to the Global Markets Business to enable more flexible asset management finely tuned to market conditions.

• Risk Categories

	Risk Category	Risk Management related Department	Risk Description
Enterprise Risk Management (Risk Management through Comprehensive Assessment of All Risk Categories)	Credit Risk	Corporate Risk Management Department	Risk of incurring losses due to the value of an asset (including off-balance sheet assets) decreasing or impairing, owing to reasons such as deterioration in the financial condition of an obligor.
	Market Risk	Corporate Risk Management Department	Risk of incurring losses due to fluctuations in the value of assets/liabilities or revenues thereof, either due to fluctuations of items such as interest rates, stock prices and foreign exchange rates, or owing to fluctuations in the values of other assets.
	Operational Risk	Corporate Risk Management Department	Risk of incurring loss resulting from inadequate or failed internal processes, people and systems or from external events (including the following risks).
	Business Processing Risk	Operations Process Planning Department (or Personnel Department for Internal Fraud)	Risk of incurring losses arising from executives or employees neglecting to engage in proper business activities, or other incidents such as accident or fraud.
	Information Security Risk	IT & Business Process Planning Department	Risk of incurring losses for reasons such as loss of confidentiality, integrity or availability of information or information systems belonging to Sumitomo Trust, owing to factors such as information management, system failure or improper management of system development projects.
	Compliance Risk	Legal and Compliance Department	Risk of incurring losses for reasons such as penalties, claims or lawsuits arising from a lack of compliance with laws, regulations or social standards in Japan and abroad, or an inability to complete transactions due to contractual impediments including the lack of necessary provisions or lack of legal capacity by the transaction counterparty.
	Human Resource Risk	Personnel Department	Risk of incurring losses due to issues such as unequal or unfair management of personnel, including issues related to compensation, benefits, release from employment and harassment.
	Event Risk	Corporate Administration Department	Risk of incurring losses arising from extraordinary situations such as natural disasters, war and criminal offenses.
	Reputational Risk	Corporate Risk Management Department	Risk of incurring losses due to a (possible) major impact on business as a result of deterioration in reputation for Sumitomo Trust or its subsidiaries, owing to reasons such as mass media reports, rumors or speculation.
	Liquidity Risk	Corporate Risk Management Department	Risk of loss due to inability to secure necessary funds, or due to being forced to pay interest rates significantly above normal in fund procurement, and risk of loss due to inability to transact in a market, or due to being forced to accept disadvantageous prices in transactions.

2. Putting This Philosophy into Practice

(1) Types of Risk

Our “Risk Management Policy” classifies risk categories, by the cause of risks we face in business operations, into credit risk, market risk, operational risk, and liquidity risk.

(2) Organizational Structure for Enterprise Risk Management

In accordance with the Risk Management Policy set by the Board of Directors, Sumitomo Trust has clarified the allocation of authority, organizational structure, and management processes and procedures so that it can identify, assess, monitor, and control risks based on the PDCA (Plan-Do-Check-Action) cycle regarding each risk category.

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

1) Board of Directors

Formulates policies and plans concerning the management of overall risks that are faced by Sumitomo Trust, and raise awareness of the policies and plans throughout the company. It also builds management and reporting structures, and vests relevant organizations with authority.

2) Executive Committee

Sets rules and provisions regarding the identification, assessment, monitoring and control, and develops frameworks to put them into practice.

3) Risk Management related Departments

Responsible for accurate recognition and continuous assessment, appropriate management and administration of risks, as well as integrity of the compliance (observance of relevant laws and regulations) frameworks.

4) Front Office Departments

Front office departments engage in operational administration aimed at ensuring the effectiveness of risk management, such as implementing appropriate controls that reflect the scale and characteristics of risks.

5) Internal Audit Department

The Internal Audit Department assesses and verifies the status of all activities as an independent department.

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

It is our policy to comprehensively measure various risks we face, including risk not included in the regulatory calculation of the capital adequacy ratio, after individually assessing respective risk categories, and manage these risks by comparing them with our overall financial strength (Enterprise Risk Management).

In addition, among risks held by the STB Group, quantifiable risks (credit, market, and operational risks) are measured by the integrated VaR*—the combination of various risks measured by the unified criteria (the one-tailed confidence interval of 99.9%, the 1 year holding period) (Integrated Risk Management). Aiming to achieve simultaneously both the management goals of “securing of financial soundness” and “maximization of shareholders’ value,” the Integrated Risk Management seeks to control the total risk amount for the group as a whole within a certain target level, and allocates capital to various risk categories and businesses according to business plans, and pursues the efficiency of capital use through risk-return as an indicator.

* 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). The larger the percentile of confidence interval, the greater the VaR, which means Sumitomo Trust applies conservative economic capital measurement. We are applying an adequately conservative level of measurement with a one-tailed confidence interval of 99.9%.

• Risk Management Structure

