

## Path 5. Reinforced Risk Management

“Confidence and Integrity” and “Placing Prime Importance on Credibility and Sound Management”  
—— Putting the Essence of the Trust Business and Sumitomo’s Basic Business Principle into Practice

Efforts to establish a framework to prevent the corporate value from being eroded by the materialization of various risks also contribute to maximizing the value. Sumitomo Trust is reinforcing its internal control, risk management and corporate governance systems in order to cope with the increasingly diverse and complex nature of its business.



## Plan and Achievements for Fiscal Year 2007 and Goals for Fiscal Year 2008 Regarding Path 5

Fiscal Year 2007		Fiscal Year 2008
Plans	Achievements	Goals
<ul style="list-style-type: none"> <li>To strengthen the PDCA cycle regarding risk management and compliance</li> </ul>	<ul style="list-style-type: none"> <li>Steadily implemented the risk management plan and the compliance program and thoroughly established the PDCA cycle through verification and improvement</li> </ul>	<ul style="list-style-type: none"> <li>To adopt a more advanced system for managing risks related to overseas credit investments</li> </ul>
<ul style="list-style-type: none"> <li>To adapt to changes in institutional and regulatory changes, such as the introduction of the Basel II framework and the enactment of the Japanese version of the SOX (Sarbanes-Oxley) Act</li> </ul>	<ul style="list-style-type: none"> <li>Secured adaptation to the Basel II framework by enhancing the calculation and verification processes. Improved the framework for adapting to the enforcement of the Japanese version of the SOX Act</li> </ul>	<ul style="list-style-type: none"> <li>To reinforce system risk management</li> </ul>

> This Underpins Sumitomo Trust's Defense and Leads Its Growth as the Core Element of Its Management Strategy.



### Comment from the Officer in Charge of Promotion

The Act on the Protection of Personal Information was put into force in April 2005 as a basic law for the protection of personal information. Sumitomo Trust issued the "Declaration for the Protection of Personal Information" as a basic principle, in an effort to become the No.1 bank in terms of gaining the trust of customers. We have established rules and procedures regarding the key elements of the protection, namely "appropriate acquisition of personal information for the prescribed purposes," "safe management of acquired personal information," "limits on the provision of acquired personal information to third parties," "supervision of employees and outsourcing contractors" and "disclosure of acquired personal information upon customers' request," and we provide education and training to ensure compliance with those rules. Furthermore, we require our subsidiaries and affiliates to comply with the rules so as to strengthen the protection of personal information on a group-wide basis.

Should any information leak occur, Sumitomo Trust will convene an information security sub-committee comprising staff from across business departments, in order to quickly take necessary steps, such as identifying the cause, considering measures to prevent the recurrence of an information leak and notifying the leak to customers, while sharing information with the management.

**HARUKI KOBAYASHI**, Senior Manager, IT & Business Process Planning Department

# > Major Risks and Risk Management Policy

With the advance of financial products and services, the risks that financial institutions need to manage are becoming increasingly diverse and complex. In addition, the operating environment for them is rapidly changing, as exemplified by the introduction in March 2007 of the Basel II framework, which imposes new regulation on the capital adequacy ratio, and the entry into force in September 2007 of the Financial

Instruments and Exchange Law, as well as the ripple effects of the U.S. financial crisis.

Under these circumstances, Sumitomo Trust is striving to enhance and advance our risk management, which forms the basis of the expansion of the business scope and the sustainable growth of the Sumitomo Trust Group, as a critical management priority.

## Types of Risk and Management

We classify risks we face in our conduct of business by the cause of losses, and manage them in a manner suited to their respective characteristics. Regarding major categories of risk, such as credit risk, market risk and operational risk, we strive to ensure accurate measurement of the risk quantity in light of their characteristics, comprehensively grasp the various risks and manage them, by comparing them with our overall financial strength.

Our basic policy for the management of credit risk is to take care to ensure “a diversified credit portfolio” and “strict credit management for individual credits,” while with regard to the management of market risk, we strive to proactively take risks as a source of profits within allowable limits, so that we can maximize our profits. In the management of operational risk, we strive to prevent the occurrence of accidents and inappropriate incidents and, at the same time, make efforts to reinforce the Internal Risk Management Framework so as to ensure that appropriate measures are taken quickly should any accident or inappropriate incident occur.

## Enterprise Risk Management and Integrated Risk Management

The Basel II framework, which examines the capital adequacy of banks based on international standards, is intended to more precisely assess risks faced by financial institutions than the previous BIS regulation, and to promote improvement of their risk management capabilities.

It is our policy to comprehensively measure the various risks we face, including risks not included in the regulatory calculation of the capital adequacy ratio, based on the assessment of individual categories of risk, and to manage these risks by comparing them with our overall financial strength (Enterprise Risk Management). Of the risks held by the Sumitomo Trust Group, the quantifiable risks (credit risk, market risk and operational risk) are measured in terms of the integrated VaR, which represents the combination of various risks measured by unified criteria (Integrated Risk Management).

## Risk Categories

	Risk Category	Risk Management related Department	Risk Description
Integrated Risk Management (Quantitative Risk Management using VaR as an Integrated Measurement) 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 a 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, stocks and foreign exchange rates, or owing to fluctuations in the value 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.

Further details of risk management are available in the 2008 Annual Report.

# > Corporate Governance and Risk Management

Sumitomo Trust has positioned corporate governance as a mechanism that concerns the decision making, execution and supervision that Sumitomo Trust implements in order to achieve sustainable growth and development through more efficient and transparent management, and we make constant efforts to enhance our governance.

In addition, we are striving to reduce risks and take swift

action if any risk materializes, by integrating the internal control system, including risk management, into the corporate governance system.

## Corporate Governance System

At Sumitomo Trust, which is at the core of the Sumitomo Trust Group, we have adopted an executive officer system, as well as a business group management system, in an effort to speed up management decision-making and business execution. The Board of Directors, which meets at least once a month makes decisions on important business matters, including basic management policies, and supervises the status of business execution by the directors and executive officers. Concerning overall risk management, the Board of Directors draws up policies and plans and ensures company-wide awareness thereof, and also establishes the framework for management and reporting, and delegates authority.

In order to ensure prompt decision-making, we have established, under the Board of Directors, the Executive Committee, which meets every week, as well as a number of other committees\* that meet on a weekly to monthly basis. The Executive Committee discusses and makes decisions on matters concerning management policy and other important items, in addition to authorizing regulations concerning risks and establishing a framework for enforcing them in accordance with policies decided by the Board of Directors. Meanwhile, the various committees established at the Board of Directors discuss and make decisions on important matters concerning business strategies and risk management.

In addition, we have formed the Risk Management related Departments as independent departments that accurately recognize and continuously assess and appropriately manage risks and maintain the integrity of the compliance system (see page 46).

\* There are committees regarding ALM, credit risk, fiduciary asset management, etc. (ALM, or Asset Liability Management, refers to the method of managing market and liquidity risks through integrated management of assets and liabilities.), among others.

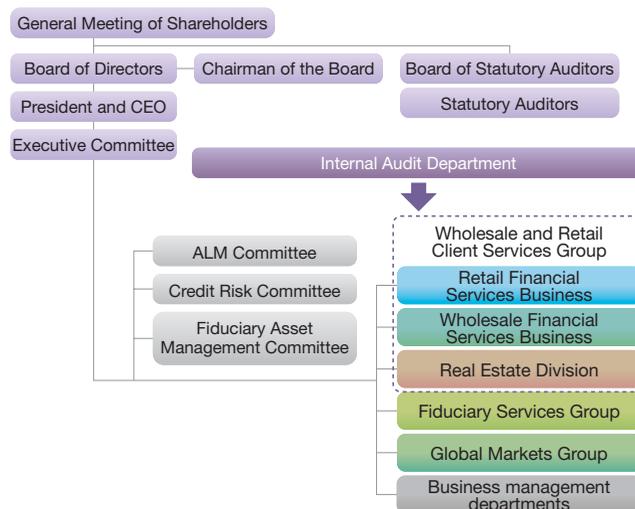
## Auditing System

Sumitomo Trust has adopted a corporate auditor system. We employ a three-tier auditing system combining the Statutory Auditors with internal auditing and CPA accounting auditing, and we are working to strengthen cooperation among these groups.

Of the five Statutory Auditors, three are external auditors. One of the three external auditors is a person with a business background in a non-financial industry and with experience in matters concerning business management. The other two are a legal academic knowledgeable about corporate law and the management and operations of financial industries, and an academic who has experience in the management of a financial institution. The appointment of people from various fields and with various backgrounds for external auditors enables the implementation of audits from diverse viewpoints based on expert knowledge.

In addition, we are strengthening our internal auditing. The Internal Audit Department reports on the status of various activities and on the results of audits to the Board of Directors in a timely and appropriate manner, as an organization that is under the direct control of the President and is independent of the departments involved in the execution of operations.

## Internal Control System Including Business Execution and Supervision



# > Compliance

Compliance is observed when all officers and employees of the Sumitomo Trust Group “strictly adhere to all laws, regulations and social codes,” “respect human rights and (do) not trespass against moral law” and “behave with honesty and fairness” as required under the Ethics Charter.

In order to enhance the compliance awareness of each officer and employee, we have developed a framework for

## Promoting Compliance at the Front Line

In order to ensure the practice of compliance in the workplace, we have established a system under which Compliance Officers are appointed at our head office and at all branches and departments in Japan and overseas. These Compliance Officers carry out a primary check through daily monitoring and guidance, while the Internal Audit Department conducts auditing as a secondary check.

Sumitomo Trust is enhancing its training courses in order to foster company-wide compliance awareness. The Legal and Compliance Department has the primary responsibility for providing training regarding company-wide compliance themes. Meanwhile, Compliance Officers assigned to branches and departments are responsible for providing training based on characteristics of their operations and products and attributes of the customers.

## Overview of the Compliance Structure

Our Compliance Structure forms the core around which Sumitomo Trust’s internal control system is constructed.

Legal and Compliance Department centrally manages the implementation of compliance-related annual practice plans, the establishment of relevant rules and the provision of training. Also, it is improving arrangements and procedures for legal checks and is enhancing its function of supporting branches and departments. Moreover, in order to improve the compliance structure of the Sumitomo Trust Group and ensure thorough group-wide compliance, this department provides subsidiaries and affiliates with guidance on how to improve their compliance structure (including the organizational structure and rules).

The Compliance Committee, which is chaired by the director in charge of the Legal and Compliance Department, instructs this department and other relevant organizations to implement necessary deliberations and measures. This committee investigates and examines problems concerning the compliance structure and the

compliance that comprises internal regulations, a compliance manual and procedures and arrangements for checking and promoting compliance. Thus, we aim to create an organization that tackles challenges and resolves problems through a self-cleansing process.

status of compliance, and when necessary, submits reports and makes recommendations to the Board of Directors regarding how to deal with these problems.

The Internal Audit Department also reports on the results of internal audits to the Board of Directors, which in turn reflects the contents of these reports in its management policies.

In the event of circumstances arising, we have a system in place to allow us to deal promptly and appropriately with any compliance-related problems. For example, we have set up a Compliance Hotline through which officers and employees can directly report to the senior management.

## Compliance Structure



# > Customer Protection

As financial products that have more complex mechanisms and characteristics compared with conventional products are increasing, there is a strong need for financial institutions to properly and fully explain to their customers the mechanisms, risks, etc., of these products, and to ensure that customers understand them prior to purchase. It is also increasingly important for financial institutions to respond in an appropriate

manner to customer complaints and requests and properly manage customer information.

Sumitomo Trust regards improved customer response ("Customer Protection"), as well as compliance, as a critical management priority, and is strengthening efforts regarding Customer Protection, with a view to becoming the "CS (customer satisfaction) No.1 bank."

## Formulation of Rules and Organizational Reform in Response to Changes in Business Environment

In order to adapt to changes in the business environment, such as the enforcement of the Financial Instruments and Exchange Law, and conduct customer-oriented business management, Sumitomo Trust has established a policy (the Customer Protection Management Policy) on the development and establishment of a system aimed at enhancing customer protection and convenience. Based on the Customer Protection Management Policy, in fiscal year 2007, Sumitomo Trust made organizational reforms, including the establishment of the Customer Satisfaction Promotion Department, and formulated a manual for the provision of explanations to customers, which requires full compliance with the "suitability rule" and specifies the appropriate procedures for the provision of information.

## Promotion of Appropriate Response to Customers and Protection of Customer Information

In addition, we strive to ensure appropriate customer solicitation and sales of financial products with due consideration of the standpoint of customers, by improving internal rules and enhancing training. "Promise to Customers," our policy for appropriate customer solicitation and sales of financial products, is published

and accessible at the branches and on our website.

In keeping with our "Declaration for the Protection of Personal Information" we are improving our internal system for ensuring appropriate protection and use of personal information. Also, we are promoting appropriate customer protection at subsidiaries, affiliates and outsourcing contractors, by providing guidance to them with regard to the handling of personal information.

## Efforts to Use Feedback from Customers to Improve Services

Sumitomo Trust responds to feedback from customers, such as inquiries, complaints and requests, in a conscientious manner and uses the feedback to improve our services, with the Customer Satisfaction Promotion Department playing the central role in this respect. The Compliance Committee checks the status of response to feedback from customers, and its use for the improvement of services, and submits to the Board of Directors and other relevant parties recommendations and reports regarding policies for response to feedback. By putting in place thorough customer protection and improving convenience through such measures, Sumitomo Trust is meeting the expectations of society and fulfilling its duties to society as a financial institution. We will continue efforts to gain the confidence of a wider base of customers.

### Promise to Customers

At Sumitomo Trust, as an asset management financial institution that works to achieve "optimal management and prudent administration," we follow all applicable laws and regulations, and we promise our customers that we will recommend products and services based on the following solicitation policy, in order that they can make appropriate judgments for themselves.

1. We ask customers about their experience and knowledge of financial products and services, their asset situation, and the purpose of their transactions. According to their responses, we provide suitable products and services.
2. We ensure that the products and services we provide are accompanied by appropriate and easy-to-understand explanations, so that customers will be able to fully understand the details and advantages, as well as the risks and handling charges.
3. We do not conduct explanations or solicitations that are likely to mislead customers, such as, for example, providing information that is contrary to fact, or explaining uncertain things in an assertive manner.
4. When we wish to make a solicitation to customers via telephone or by visiting them in person, we try to do so without imposing on customers' schedules.
5. We work to gain accurate knowledge and learn easy-to-understand explanation methods, so that we can provide products and services that suit the needs of our customers.