This section outlines matters to be stated in explanatory documents relating to the fiscal year separately stipulated by the Director-General of the Financial Services Agency (Notification No. 15 of Financial Services Agency, March 23, 2007) with regard to the status of capital adequacy as set forth in Article 19-2, Paragraph 1, Item 5-(d) of the Enforcement Regulations of the Banking Act (Ministry of Finance Ordinance No. 10, 1982), as well as the matters regarding compensation separately stipulated by the Director-General of the Financial Services Agency (Notification No. 21 of Financial Services Agency, March 29, 2012) as having significant consequences on the business operation or asset status of a bank, a bank holding company, or their subsidiaries, according to Article 19-2, Paragraph 1, Item 6, Article 19-3, Item 4 and Article 34-26, Paragraph 1, Item 5 of the Enforcement Regulations of the Banking Act (Ministry of Finance Ordinance No. 10, 1982).

The following disclosure is with respect to Sumitomo Mitsui Trust Holdings, Inc. as of the end of March 2012, unless otherwise stated specifically.

Capital Adequacy Ratio Qualitative Disclosure Data:

Sumitomo Mitsui Trust Holdings, Inc.

(Reference) Sumitomo Mitsui Trust Bank, Limited (After April, 2012)

Compensation Disclosure Data:

Sumitomo Mitsui Trust Holdings, Inc.

Capital Adequacy Ratio Qualitative Disclosure Data:

Sumitomo Mitsui Trust Holdings, Inc.

1. Overview of Risk Management

(1) Basic Policies on Risk Management

Sumitomo Mitsui Trust Group (the "SMTH Group") is working to improve its risk management system based on recognition of the fact that ensuring the sound and stable management of the entire SMTH Group and each subsidiary in the SMTH Group is vital to the improvement of corporate value, and, to that end, risk management is one of the most important functions.

Risk management aims to accurately recognize risk status, and implement necessary countermeasures regarding risks, through a series of activities, which include risk identification, assessment, monitoring, control and reduction, in order to ensure sound management. The SMTH Group manages risks in the SMTH Group and comprehensively measures risks unique to the group organization that each group company cannot recognize alone, such as the spread of risks within the SMTH Group. It manages these risks by comparing them with the SMTH Group's overall financial strength (Enterprise Risk Management). In addition, of the risks subject to Enterprise Risk Management, the SMTH Group combines risks which are quantifiable with unified criteria, and quantitatively manages risks held by the SMTH Group (Integrated Risk Management).

(2) Risk Categories and Management System

The SMTH Group defines risk categories by type of risks to be managed, namely credit risk, market risk, funding risk and operational risk.

The SMTH Group positions supervision of risk management for the entire SMTH Group as one of the most important functions of the holding company, Sumitomo Mitsui Trust Holdings, Inc. ("SMTH"). SMTH aims to improve and upgrade its risk management system by establishing Risk Management Rules as a basic agenda for risk management in the SMTH Group and formulates policies and plans for each fiscal year with respect to risk management in the SMTH Group.

SMTH has instituted the Risk Management Department as a department to supervise the overall SMTH Group risk management and monitor the risk status of the SMTH Group, and to also issue instructions and provide guidance to each group company on development of proper risk management systems. Additionally, as a department for supervision of compliance, the Compliance Department has been instituted to formulate policies for the entire SMTH Group and to monitor the status of management and operations.

Regarding internal audits, a system is in place in which SMTH determines policy improvements of the internal audit system for the entire SMTH Group and carries out internal audits for each department of SMTH. In addition, SMTH supervises internal audit functions of each group company and issues necessary instructions upon receipt of reports on audit results and the status of improvements carried out by each group company.

At each group company, in order for risk management and compliance policies determined by SMTH to be carried out, systems for proper risk management corresponding to risk characteristics, compliance, and each business have been developed.

The Board of Directors of SMTH obtains necessary information from each group company, performs monitoring, appraisal and analysis of the risk status of the SMTH Group, and carries out proper risk management so that sound management is ensured.

Additionally, the directors of SMTH and each group company duly recognize the fact that risk management has a material impact on the achievement of their strategic targets, and the executive officers in charge of the risk management-related departments strive to accurately recognize the status of risks and examine policies and specific measures, based on a sufficient understanding of source, type and characteristics of risks and methods and importance of risk management. The roles and responsibilities of these directors and executive officers in charge of the risk management-related departments are specified in the respective Risk Management Rules provided by SMTH and each group company.

(3) Integrated Risk Management and Risk Capital Allocation

1) Integrated Risk Management System

The SMTH Group has built an integrated risk management system to serve as a framework for risk management to secure sound management by keeping risks within the limits of management's strengths. In integrated risk management, the SMTH Group manages risks according to the characteristic of each risk category, while it combines each risk by quantifying them by using unified criteria such as

VaR, and comprehensively ascertains, appraises, and manages these risks by comparing them with the SMTH Group's overall financial strength. The results of this risk status monitoring are reported to the Executive Committee, the Board of Directors and others on a regular basis.

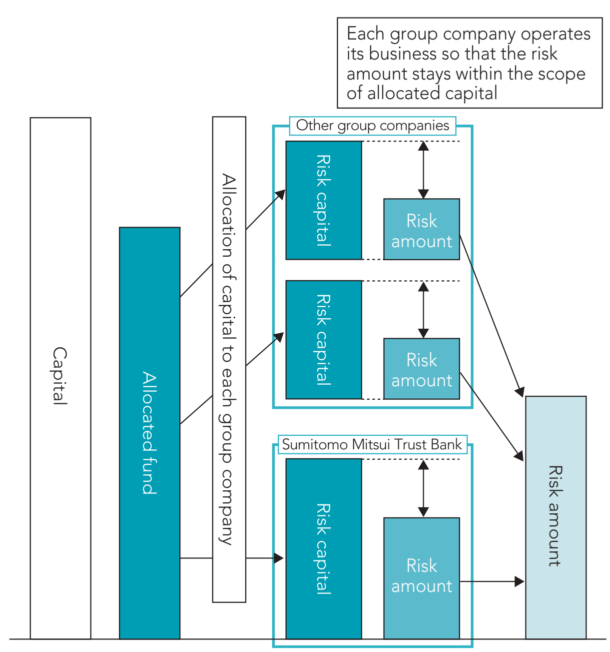
2) Risk Capital Allocation Operations

For the purpose of the SMTH Group's capital allocation operations, SMTH assesses capital adequacy level, in consideration of the external environment, risk-return performance status, strategic targets, and the results of its stress test, and allocates capital of the SMTH Group to each group company based on its risks (credit risk, market risk, and operational risk). The risk capital allocation plan is subject to the approval of the Board of Directors.

Each group company operates its business in compliance with the allocated amount of risk capital (risk capital). The risk management supervision department monitors adherence to the allocated risk capital (risk capital) and the risk amount status on a monthly basis and reports to the Board of Directors and others.

The risk capital allocation plan is reexamined on a regular basis semiannually, and also whenever deemed necessary due to modifications to the business plan of any one of the group companies or changes in risk status, etc.

Capital Allocation Scheme



3) Assessment of Capital Adequacy Level, Capital Strategy

The capital management departments assess the level of capital adequacy from the viewpoint of soundness each time a risk capital allocation plan is formulated or reexamined, and reports to the Board of Directors and others.

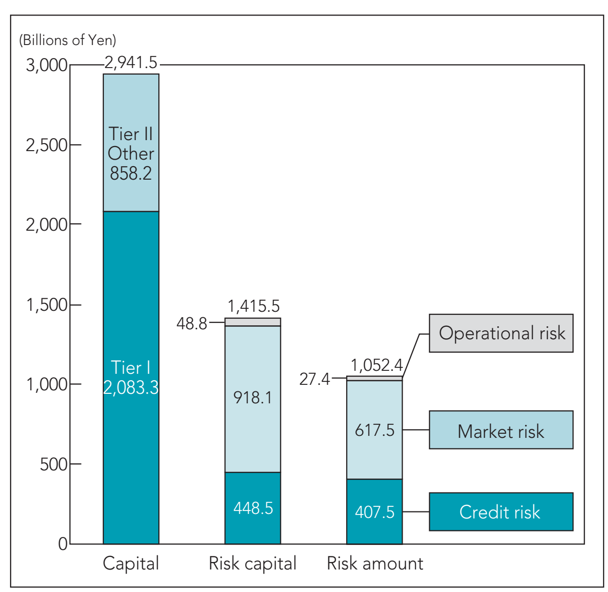
The SMTH Group assesses capital adequacy level multilaterally by establishing multiple definitions of capital and risk as follows.

From the viewpoint of ensuring business continuity, the SMTH Group assesses the capital adequacy level by comparing the amount of risk with a confidence interval of 99% with the risk capital. That is the sum of unrealized gains on securities and Tier I capital (allocation fund)—a fundamental capital category. Also, from the viewpoint of depositor protection, it compares the amount of risk with a confidence interval of 99.9% with the regulatory required capital. Its assessment also considers the results of the stress tests.

4) Capital Adequacy Status

Under the risk capital allocation plan, against capital of ¥2,941.5 billion (Tier I capital of ¥2,083.3 billion) of SMTH on a consolidated basis, the allocated risk capital (risk capital) is ¥1,415.5 billion. Risk capital actually used (risk amount) is ¥1,052.4 billion. In addition, the balance between allocated risk capital (risk capital) and allocation fund, about ¥667.8 billion, is at a sufficient level according to the results of stress tests.

Capital and Risk Capital
(within a 99% confidence interval, 1 year holding period)



5) Upgrading of Integrated Risk Management and Capital Management Systems

The SMTH Group will continuously verify the scope of risk to be managed, risk measurement methods, risk capital allocation methods, capital adequacy level assessment methods, etc., so that integrated risk management and capital management will be more effective, and will strive to improve and upgrade the systems.

(4) Business Continuity Management

The SMTH Group has established an emergency-response framework. In the case of an emergency headquarters headed by the President would be set up for quick and appropriate responses.

Furthermore, to achieve uninterrupted business continuity while ensuring the safety of our clients, officers and employees, as well as their family members, the SMTH Group also has in place a business continuity plan (BCP). Regular training and reviews of the plan's content are conducted so that it continues to be effective.

The SMTH Group will be further enhancing its disaster preparedness, based on the lessons learned in the aftermath of the Great East Japan Earthquake.

2. Compliance with BIS Capital Adequacy Regulations

(1) Compliance with BIS Capital Adequacy Regulations

From the end of March 2007, Japan has been subjected to capital adequacy ratio rules (Basel II), a unified international standard determined by the Basel Committee on Banking Supervision. Basel II aims to evaluate risks faced by financial institutions in more detail, with greater precision than the previous regulatory framework, while also encouraging enhanced risk management abilities of financial institutions. Basel II is comprised of the following "Three Pillars." Since the end of December 2011, regulatory review has been under way targeting securitized products and trading account, in an effort to cope with the financial crisis triggered by the subprime mortgage problem (Basel II-5).

The SMTH Group has set up its risk management system in compliance with the current regulations as part of its Enterprise Risk Management.

Furthermore, a new regulatory framework (Basel III) will be introduced on a step-by-step basis from the end of March 2013, aimed at enhancing both the quality and quantity of capital, along with more focused risk recognition. SMTH is committed to further enhancing its risk management performance by constantly stepping up its compliance with the new regulatory framework.

1) "The First Pillar"

The first pillar is designed to manage the required capital calculated under the regulation-prescribed methods. An internationally active bank is required to have total capital of at least 8% of the aggregate of credit risk, market risk and operational risk, in addition to further elaborating the measurement of credit risk.

Banks are to choose risk methods according to their internal risk management frameworks, and we have adopted the approaches indicated on the next page.

2) "The Second Pillar"

The second pillar comprises the management of overall risks, including "interest rate risk in the banking account" and "credit concentration risk," which are particularly important among risks not covered by the first pillar, by the banks themselves, and the examination of the banks' capital adequacy by the banking supervisory authorities through the processes of evaluation and supervision. It is aimed at maintaining and improving the soundness of the management of banks. The SMTH Group is managing these risks within the internal risk management framework.

3) "The Third Pillar"

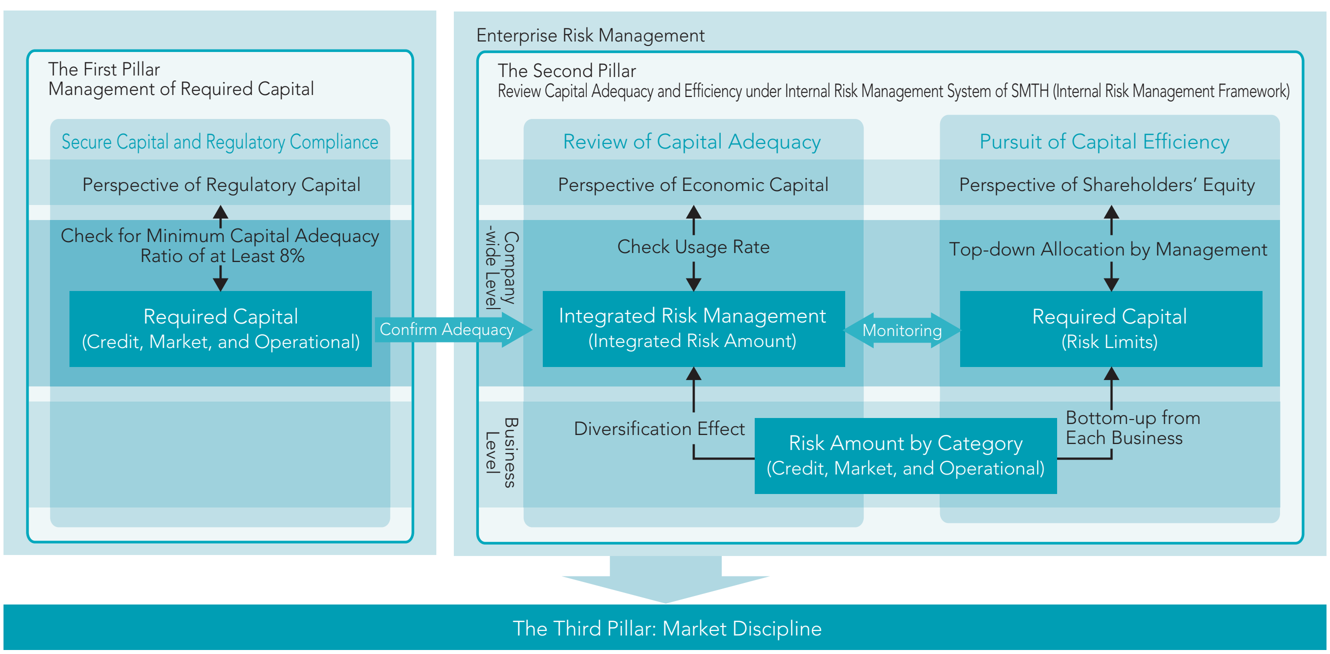
The third pillar is designed to aim at maintaining and improving the soundness of bank management by enhancing information disclosure regarding matters related to the first and second pillars, such as capital adequacy and risk management, thereby increasing the effectiveness of market discipline to be exerted on banks.

Method and Calculation

$$\text{Capital Adequacy Ratio} = \frac{\text{Total Qualifying Capital}}{\text{Credit Risk + Market Risk + Operational Risk}}$$

	Sumitomo Mitsui Trust Holdings	The Chuo Mitsui Trust and Banking	Chuo Mitsui Asset Trust and Banking	The Sumitomo Trust and Banking
Credit Risk	Foundation Internal Ratings-Based (IRB) Approach	Foundation Internal Ratings-Based (IRB) Approach	Standardized Approach	Foundation Internal Ratings-Based (IRB) Approach
Market Risk	Internal Models Approach	—	—	Internal Models Approach
Operational Risk	Standardized Approach	Standardized Approach	Standardized Approach	Standardized Approach

Framework for Risk Management at the SMTH Group



(Reference)

Sumitomo Mitsui Trust Bank, Limited (After April, 2012)

1. Overview of Risk Management

(1) Basic Policies on Risk Management and Risk Categories

In accordance with the Risk Management Policy formulated by SMTH along with its management policy and the basic policy on internal control, the Board of Directors at Sumitomo Mitsui Trust Bank, Limited ("SMTB") has established Risk Management Rules, which sets out SMTB's basic rules for risk management, including the types of risk requiring attention, the techniques applied to hedge risk, and the structure and authority for risk control. Based on these rules, SMTB defines the content of specific standards for risk management by each type of risk.

The types of risks defined by SMTB for the above purpose include credit risk, market risk, funding risk and operational risk.

Credit risk is the risk of reduction or impairment of the value of assets (including off-balance sheet assets), owing to reasons such as deterioration in the financial condition of an obligor, that causes SMTB to incur loss.

Market risk is the risk of loss caused by the changes in the value of assets or liabilities held by SMTB (including those on off-balance basis) and/or the proceeds there from, due to fluctuations of various risk factors such as interest rates, foreign exchange rates, and stock prices.

Funding risk is the risk of loss resulting from a cash-flow crisis due to an inability to finance any necessary funds, or a tight funding environment that imposes an interest rate significantly higher than normal.

Operational risk refers to the SMTH Group's risk of losses arising from inappropriate business processes, activities of officers or employees, computer systems as well as external incidents.

(2) Risk Management Structure

In accordance with the Risk Management Policy formulated by SMTH, SMTB sets down the roles and responsibilities of operational organizations and departments related to risk management as follows:

1) Board of Directors

The Board of Directors formulates policies for the identification, assessment, monitoring, control and reduction of risks. It also formulates management plans, including the risk capital allocation plan and the risk management plan, and disseminates the plans throughout the company. It also establishes a reporting structure and vests authority in relevant organizations.

2) Executive Committee

The Executive Committee sets rules and provisions regarding the identification, assessment, monitoring, and control of risks in line with the policies set out by the Board of Directors, and develops frameworks to put them into practice.

3) 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 based on the accurate recognition of risks, subject to Risk Management Rules and relevant risk management regulations, etc.

4) Risk Management-related Departments

These departments are responsible for developing and running the risk management process for identification, assessment, monitoring control and reduction of risks they are supposed to manage. Furthermore, in order to fulfill their check-and-balance functions over the front office departments, these departments engage in the planning and promotion of the risk management system; including reporting to senior management on a regular basis or as appropriate, based on the monitoring of risk status and risk management activities at front office departments.

2. Credit Risk

(1) Credit Risk Management Policy

The basic policy of SMTB's risk management calls for "a diversified credit portfolio" and "strict credit management for individual credits." For the former, SMTB is making efforts to mitigate credit concentration risk by managing, on a sector-by-sector and country-by-country basis, the diversification of the overall credit portfolio, including large borrowers. For the latter, SMTB is managing individual credits in a more elaborate manner through the operation of credit screening, self-assessment and internal credit ratings.

Furthermore, SMTB has set a standard for profitability by taking into account expense rates and expected loss ratios for each credit rating, and it factors in the results of this measurement in terms and conditions of each transaction in a bid to secure profit margins (spreads) commensurate with their risk amount to "ensure appropriate risk-return."

Meanwhile, SMTB is working to develop a structural approach to adequately promote its initiative to help clients improve their management for better access to finance in line with the intention of the SME Financing Facilitation Act, as the initiative is also critical from the viewpoint of credit risk management.

(2) Credit Risk Management Structure

SMTB has established a credit risk management framework under which various organizations and departments are closely organized for mutual support and effective checks and balances. Relevant organizations and departments assume their respective roles based on the credit strategies and credit risk management plans formulated by the Board of Directors as follows:

The Board of Directors decides on important matters related to credit risk management when establishing semi-annual management plans. Based on reports on credit risk management, the Board of Directors decides on the credit strategy and the risk amount plan.

Based on the reports of credit risk management, the Executive Committee deliberates and decides on the credit strategy and the risk capital allocation plan, and brings them to the Board of Directors.

The Credit Risk Committee deliberates and decides on basic credit policies as well as investment and loan transactions, and secures the strengthening and improvement of the fund management base, the effective use of funds and the soundness of assets, including assets in trust.

The Risk Management Department designs and facilitates the management of credit risk in a proper manner as a risk management-related department pertaining to credit risk. Also, it undertakes credit risk management through the measurement of credit risk amounts, the monitoring of credit portfolios and validation of the appropriateness of self-assessment, write-offs and reserves, and verifies the appropriateness of the internal ratings system.

Research Department applies credit ratings based on industry research and research on credit evaluation of individual companies along with quantitative analysis, from an independent and neutral standpoint.

Each Global Credit Supervision Department (Global Credit Supervision Department I, Global Credit Supervision Department II and Global Credit Supervision Department III) screens credit transactions strictly, provides appropriate guidance to branches and departments, and conducts self-assessment (secondary assessment), and deals with problematic loans. Branches and departments on the other hand, manage credit transactions appropriately and conduct self-assessment (initial assessment).

(3) Credit Risk Management Methods

1) Credit Concentration Risk Management

Credit limit for each obligor is managed based on the consolidated overall exposure for businesses including loans, stocks, off-balance sheet and other transactions. Meanwhile, SMTB looks into the impact of credit risk realization of large obligors and the particular degree of concentration on industry sectors with large credit exposures, and reports to the Executive Committee on a quarterly basis.

To cope with country risk, SMTB also controls exposures by country in the same manner.

2) Credit Ratings and Self-assessment

SMTB's credit ratings use a method that combines a statistical quantitative model and qualitative assessment ascertaining characteristics of individual obligors, providing stage assessment in respect of the credit status of obligors and the likelihood of their defaults. These ratings also serve as the basis for credit risk measurement using the Internal Ratings-Based Approach ("IRB Approach") under the Basel II framework, and cover a range of obligors from all corporate clients including banks, to project finance and structured finance transactions.

SMTB conducts self-assessment basically for all assets in the banking account and the principal guaranteed trust account on a regular basis, and determines the "classification of obligors" by assessing client's repayment capacity by their financial standing, cash positions, profit earning capacity, etc., as well as the "asset classification" according to the risk of assets becoming irrecoverable or impaired in their value, in order to achieve effective credit risk management and adequate write-offs and reserves.

3) Credit Risk Quantification

The measurement of credit risk amount is designed to quantitatively grasp the extent as to how far the company's assets are likely to incur losses from credit events over the coming year. In particular, based on estimates of default rates in each grade of credit rating and recovery rates, SMTB measures the difference between the maximum value of bad loan losses estimated within the range of certain probabilities and the expected bad loan loss, which is the average value of estimated bad loan losses, as the credit risk amount. The measurement results are reported regularly to the Board of Directors.

In the actual measurement, as SMTB's method is designed to factor in the correlation between individual assets, the risk amount derived reflects not only the quality of assets, but also the effects of diversification of credit portfolios. Therefore, by regularly monitoring the risk amount, SMTB ascertains the status of "a diversified credit portfolio" and "strict credit management for individual credits," and also checks the appropriateness of capital allocation and the soundness of business operations.

3. Market Risk

(1) Market Risk Management Policy

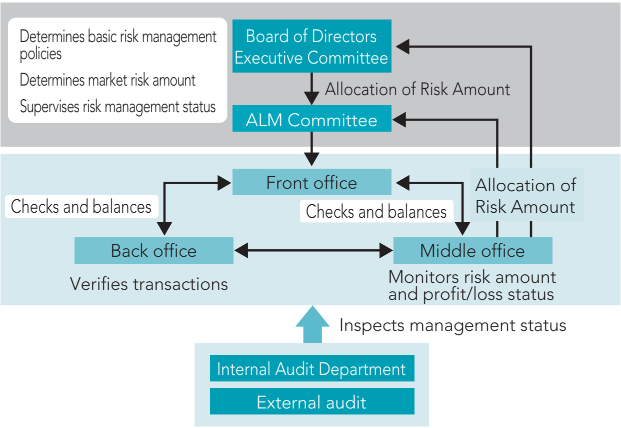
In managing market risk, SMTB aims to ensure adequate profits commensurate with the strategic targets, scale and characteristics of business and risk profile of the SMTH Group. SMTB is doing this by improving the management system, along with ensuring its operational soundness by adequate control over risks.

(2) Market Risk Management Structure

To establish an adequate market risk management system, SMTB has developed a mutual check-and-balance system that clearly defines the roles of the front office, middle office and back office.

The front office execute transactions appropriately, subject to the rules and regulations concerning risk management. The middle office departments, which are independent of the front office divisions, engage in management work including the measurement of market risk amounts and profit/loss, etc. and the monitoring of market risk status. The back office departments, also independent of the front office, engage in operations including verification of the transactions by the front office and settlements with their counterparts, providing the middle office with accurate risk management-related information on the transactions, whereby a mutual check-and-balance framework is achieved.

Market Risk/ Funding Risk Management Structure



Matters related to comprehensive asset and liability management and matters related to investment and loans involving market risk and other matters are subject to the deliberation and decisions by the ALM Committee* established by the Board of Directors.

* ALM: Asset-Liability Management, designed to manage cash flows, liquidity, foreign exchange risk, interest rate risk, etc. by grasping the attributes of maturities and interest rates from assets and liabilities.

(3) Market Risk Management Methods

Market risk is quantified using VaR as a measurement standard, with confidence interval and holding period defined as follows:
Confidence interval : 99%

Holding period : Trading : 10 days
Banking : ALM-related positions: 63 days (3 months)
Credit investment and strategic investment: 260 days (1 year)
Others: 21 days (1 month)

Meanwhile, in order to complement market risk management that assumes non-emergency situations, SMTB periodically estimates the scale of potential loss beyond VaR in times of stress events, by conducting stress tests based on stress scenarios beyond the assumption of VaR measurement.

4. Funding Risk

(1) Funding Risk Management Policy

Fully appreciating that a funding crisis resulting from the materialization of funding risk could, in the worst case, directly lead to a default of the SMTH Group, SMTB is committed to formulating relevant policies for the development and establishment of an adequate funding risk management system, while keeping concerned parties fully informed on such development.

(2) Funding Risk Management Structure and Methods

The funding risk management-related departments make adequate judgments with respect to funding tightness, by collecting and analyzing information regarding our internal environment such as the SMTH Group's risk profile, as well as the external environment such as the overall economy and market conditions, subject to the risk management plan approved by the Board of Directors on a semi-annual basis and in coordination with the funding management departments.

In order to mitigate funding risk, the funding management departments control cash flows in compliance with a predetermined adequate risk limit. The funding risk management-related departments monitor the status of such compliance.

5. Operational Risk

(1) Operational Risk Management Policy

In developing operational risk management system, SMTB makes it a principle to carry out adequate risk management in accordance with the scale and characteristics of businesses and risks involved, in an effort to ensure soundness and appropriateness of their businesses. This is based on the recognition that operational risk is something unavoidable in the course of business execution.

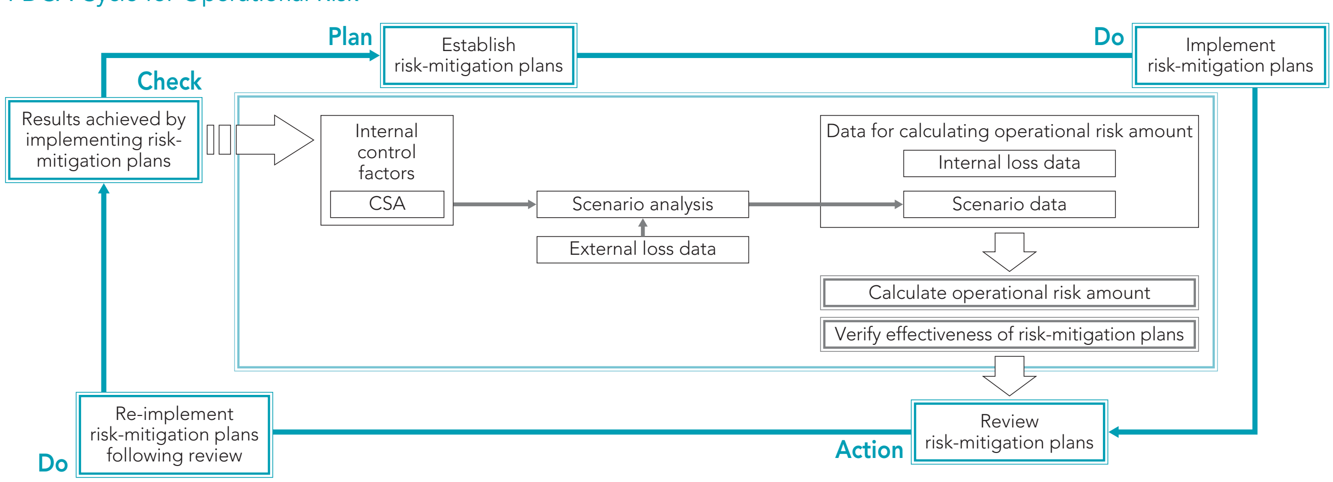
(2) Operational Risk Management Structure

The Risk Management Department, which has overall responsibility for operational risk management, is committed to developing and enhancing the group wide operational risk management system, in coordination with the departments responsible for managing the subcategory risks, such as business-processing risk or system risk. Meanwhile, in order to further develop and enhance the system, SMTB has established the Operational Risk Management Committee, where executive officers in charge of the operational risk management-related departments, along with general managers of the departments responsible for supervising each business, can receive reports on operational risk information while engaging in deliberation and consultation as necessary.

(3) Operational Risk Management Methods

Operational risks involved in all areas of the SMTH Group's business, including outsourced business, are subject to operational risk management, which adequately identifies and assesses risk from both qualitative and quantitative perspectives. Meanwhile, preventative measures against risk materialization, as well as responses in the event of materialization, causal analysis and recurrence-prevention measures are formulated to mitigate operational risk.

PDCA Cycle for Operational Risk



Compensation Disclosure Data:

Sumitomo Mitsui Trust Holdings, Inc.

1. Development Status of Organizational Structures Concerning Compensation for Applicable Officers and Employees within the SMTH Group

(1) Scope of "Applicable Officers and Employees"

The scope of "applicable officers" and "applicable employees, etc." (collectively the "applicable officers and employees") as defined in the compensation notification to be disclosed is as follows:

(i) Scope of the "Applicable Officers"

Applicable officers include directors and corporate auditors of SMTH, but exclude external auditors. SMTH has no external directors at present.

(ii) Scope of "Applicable Employees, etc."

Of SMTH's officers and employees outside the scope of applicable officers as well as officers and employees of its significant consolidated subsidiaries, a "person receiving a substantial amount of compensation" with significant consequence on the business operation or asset status of SMTH and its significant consolidated subsidiaries, are subject to disclosure as applicable employees, etc.

(a) Scope of "Significant Consolidated Subsidiary"

"Significant consolidated subsidiary" refers to a consolidated subsidiary either with its total assets representing more than 2% of the consolidated total assets, or with significant consequence on the SMTH Group's management, namely The Chuo Mitsui Trust and Banking Company, Limited, Chuo Mitsui Asset Trust and Banking Company, Limited, The Sumitomo Trust and Banking Co., Ltd., Japan Trustee Services Bank, Ltd. and Sumishin Panasonic Financial Services Co., Ltd.

(b) Scope of a "Person Receiving a Substantial Amount of Compensation"

A "person receiving a substantial amount of compensation" refers to a person who receives compensation in excess of a certain threshold amount from SMTH or its significant consolidated subsidiaries. Such a threshold amount is set at ¥40 million within the SMTH Group. This threshold amount has been determined based on the average compensation for officers paid in fiscal year 2011 (excluding the compensation paid to the officers who were newly appointed or retired in the fiscal year), and is commonly applicable across all significant consolidated subsidiaries, as more or less the same level and system of compensation is shared among all significant consolidated subsidiaries.

With respect to a person receiving lump-sum retirement benefit, this amount is first wholly deducted from the amount of compensation, then the "lump-sum retirement benefit divided by the number of years of service" is added back to calculate the deemed compensation for the purpose of determining whether the compensation is substantial or not.

(c) Scope of "Those with Significant Consequence on the Business Operation or Asset Status of the SMTH Group"

"Those with significant consequence on the business operation or asset status of the group" refers to the persons who normally conduct transactions, or manage business affairs that have considerable impact on the business operation of SMTH, the SMTH Group or its significant consolidated subsidiaries, or whose transactions can cause loss with significant impact on their asset status. Specifically, they include executive officers of SMTH and employees equivalent to general managers in the departments involving loan operations and market risk management.

(2) Determination of Compensation for Applicable Officers and Employees

(i) Determination of Compensation for Applicable Officers

SMTH determines the total amount of compensation for officers based on decisions made at the General Meeting of Shareholders. Of the total compensation, individual allocation of compensation for directors is at the discretion of the Board of Directors, while that for corporate auditors depends on deliberations of corporate auditors.

(ii) Determination of Compensation for Applicable Employees, etc.

Compensation for employees, etc. within the SMTH Group is payable, subject to the policies established primarily by the Boards of Directors and others of SMTH and its significant consolidated subsidiaries. According to such policies, compensation systems are designed by human resources departments of SMTH and its significant consolidated subsidiaries, independent of the business promotion departments and documented as payroll rules, etc. Information on the compensation systems of the significant consolidated subsidiaries is reported to, and verified by, the Human Resources Department of SMTH on a regular basis.

Compensation for overseas employees, etc. are determined and payable under the local compensation system established by each overseas operation on its own, in compliance with local laws and regulations and local employment practice. Establishment and change of overseas compensation systems require consultation with, and validity verification by, the Human Resources Department of SMTH.

2. Adequacy Evaluation of Design and Operation of the Compensation System for Applicable Officers and Employees of SMTH

(1) Policies Concerning Compensation for Applicable Officers and Employees

(i) Policies Concerning Compensation for "Applicable Officers"

The limit amount for compensation for officers as decided by the General Meeting of Shareholders is ¥30 million per month for directors, and ¥9 million per month for corporate auditors, apart from a ¥20 million annual limit for stock options (share acquisition rights) for Directors. The amount of compensation for directors and corporate auditors is capped by these limits.

Compensation for Directors is intended to function effectively as an incentive to make improvements in corporate performance and expand corporate value in order to achieve steady and sustainable growth of the SMTH Group.

The amount of compensation for directors is also aimed at reflecting corporate performance, the contribution of each director to corporate performance, efforts for expansion of business operations in the medium- to long-terms, and for improvement of corporate value, and so forth, and determined based on an annual compensation policy determined by the Board of Directors and on an objective evaluation made by the Performance Evaluation Committee.

Furthermore, for the fiscal year under review, share acquisition rights were allotted to directors as a stock option to further enhance their motivation and morale that helps drive SMTH's stock price increases, medium- to long-term corporate performance, and ultimately shareholder profits.

(ii) Policies Concerning Compensation for "Applicable Employees, etc."

Compensations for the SMTH Group's employees, etc. are determined by performance assessments, to reflect each employee's contribution to corporate performance in determining a performance-linked portion and evaluating target attainment performance. The human resources departments at each company ensure that compensation payments are not excessively performance-oriented, on the basis of the compensation system in place, current status of performance assessment and actual payment records.

On the other hand, compensation for overseas employees is determined under a basic principle by which payrolls are determined based on job description and responsibility, while bonuses are determined based on performance. Meanwhile, the total compensation budget is capped locally, based on the performance of each operation, preventing excessive impact on the overall compensation fund from individual employees' extraordinary performance.

3. Consistency of SMTH's Compensation System for Applicable Officers and Employees in Line with Risk Management, and Linkage between Compensation and Performance

In determining compensation for applicable officers, the total amount of compensation is determined based on decisions made at the General Meeting of Shareholders. In determining compensation for applicable employees, etc., an adequate budget is arranged in consideration of the SMTH Group's financial standing and other considerations.

• Total Amount of Compensation for the Applicable Officers and Employees within the Group (From April 1, 2011 to March 31, 2012)

Category	Headcount	Millions of Yen						
		Total amount of compensation	Total amount of fixed compensation	Basic Compensation	Compensation as stock option	Total amount of variable compensation	Bonus	Retirement benefits
Directors (excluding External Directors)	10	493	457	456	1	36	36	—
Corporate Auditors (excluding External Auditors)	2	54	54	54	—	—	—	—
Applicable Officers	2	87	48	48	—	34	34	5

* Amount of compensation stated above includes compensation for (concurrent) directorship at the significant consolidated subsidiaries.