

Corporate Governance, Internal Control

1. Basic Policy

In order to adhere to the principles of sound management based on a high degree of self-discipline with the background of fiduciary spirit and establish strong credibility from society, Sumitomo Mitsui Trust Holdings, Inc. (“SuMi TRUST Holdings”) shall commit itself to enhancing its corporate governance system in line with the following fundamental perspectives, with the objective of supporting sustainable growth and medium- to long-term enhancement of the corporate value of the Sumitomo Mitsui Trust Group (the “SuMi TRUST Group”).

—Fundamental Perspectives—

- SuMi TRUST Holdings shall respect shareholder rights, and endeavor to develop an environment in which shareholders can exercise their rights appropriately and effectively, and to secure effective equal treatment of shareholders.
- By recognizing the importance of its social responsibilities and public mission, SuMi TRUST Holdings shall endeavor to appropriately cooperate with its stakeholders such as shareholders, customers, employees, business partners, and local communities, and to establish a corporate culture where it conducts sound business operations based on a high degree of self-discipline.
- In order to establish the basis for constructive dialogue with its stakeholders, SuMi TRUST Holdings shall separately set out its Disclosure Policy, and endeavor to appropriately disclose corporate information, including non-financial information, and ensure the transparency of its corporate management.
- As a financial holding company with the function of managing the business execution of the SuMi TRUST Group, SuMi TRUST Holdings shall endeavor to ensure the Board of Directors’ role of effective oversight of the business execution.
- SuMi TRUST Holdings shall engage in constructive dialogue with its stakeholders in order to contribute to sustainable growth and medium- to long-term enhancement of the corporate value of SuMi TRUST Holdings.

2. Outline of Corporate Governance System

(1) Role of SuMi TRUST Holdings in the SuMi TRUST Group

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

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

(2) Business Execution and Supervision System

SuMi TRUST Holdings has adopted the form of a company with a Board of Corporate Auditors, in which directors familiar with the business decide on its important business-execution matters.

SuMi TRUST Holdings has established the Board of Corporate Auditors of which at least half of the members are external corporate auditors. In addition, SuMi TRUST Holdings has decided that it will operate in principle with a ratio of independent external directors of at least one third of the members of its Board of Directors, and has stated this in the Basic Policy on Corporate Governance of SuMi TRUST Holdings.

SuMi TRUST Holdings has voluntarily established a Nominating and Compensation Committee and an Audit Committee, of which the majority of members are, in principle, composed of external directors, as advisory bodies to its Board of Directors in order to further enhance its corporate governance system. With the establishment of these two committees, SuMi TRUST Holdings aims to further ensure management transparency and appropriateness of processes when deciding important matters regarding nomination and compensation of directors/corporate auditors and internal audits, among other matters.

SuMi TRUST Holdings has appointed four corporate auditors, including two external corporate auditors. Its Board of Corporate Auditors has been composed of all of these corporate auditors.

The Executive Committee has been established under the

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

The CSR Council and other committees, such as the Enterprise Risk Management Committee, have also been established.

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

(3) Internal Control

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

At SuMi TRUST Holdings, in order to accomplish the four above-mentioned objectives, the Board of Directors decides its Basic Policy on Internal Control for the 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 SuMi TRUST 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 56-65.

(4) Audit

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

The corporate auditors audit the directors' execution of duties in accordance with the policy on audits and the allocation of duties as determined by the Board of Corporate Auditors. Specifically, the corporate auditors attend important meetings including the Board of Directors' meetings and receive reports from directors and general managers of headquarters regarding the status of the execution of

duties. They also peruse important documents, hear reports from general managers at headquarters and receive business reports from subsidiaries when necessary.

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 their daily audit activities. These reports include information on proposals put forward at important meetings such as those of the Executive Committee, and the content of investigations of SuMi TRUST Holdings and subsidiaries. Part-time corporate auditors perform auditing from multi-faceted perspectives, such as those of legal and corporate management, in addition to stating their opinions at the meetings of the Board of Directors and Board of Corporate Auditors, among other activities.

Corporate auditors hold periodic meetings with the Accounting Auditors in which they receive auditing information, as well as reports on auditing plans, the status of auditing performed, and auditing results, among other information, and also exchange opinions and share information as needed. They also monitor and verify whether the Accounting Auditors have maintained an independent standpoint and performed audits 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 Accounting Auditors, and auditing by corporate auditors.

Regarding internal auditing*, an internal audit unit has been established, which is independent of units pertaining to business execution. The internal audit unit creates policy on the development of the internal auditing system and the internal auditing plans of SuMi TRUST Group, performs internal auditing for each business execution unit, and indicates and recommends points to be improved. It also periodically, as appropriate, reports to the Board of Directors on internal auditing results and the status of the progress and achievement of the internal auditing plans. The Audit Committee was established on June 26, 2015, as an advisory body to the Board of Directors to create a framework in which important matters such as internal audit plans shall be preliminarily reviewed by the committee and then reported to the Board of Directors.

* For details concerning internal auditing, please refer to page 65.

3. Independence of Directors/Corporate Auditors

(1) Directors

SuMi TRUST Holdings has established nomination policies of external directors in the Basic Policy on Corporate Governance. External directors are decided from among a wide range of diversified individuals pursuant to the following nomination policies: (i) A person who satisfies the Independence Standards of Independent Directors/Corporate Auditors of SuMi TRUST Holdings (the "Independence Standards"), and who is deemed unlikely to give rise to conflicts of interest with general shareholders of SuMi TRUST Holdings; (ii) A person who understands SuMi TRUST Holdings' management principles, and fully understands the social responsibilities and roles of SuMi TRUST Holdings as a trust bank group; (iii) A person who fully recognizes the role of external director, and who is able to oversee SuMi TRUST Holdings' directors and management, and provide proper and appropriate opinions and advice, by leveraging the person's knowledge and activities in fields such as corporate management, economy, legal affairs, accounting, tax accounting, and auditing.

SuMi TRUST Holdings have decided that it will operate in principle with a ratio of independent external directors of at least one third of the members of its Board of Directors, which executes the management functions for the all SuMi TRUST Group's businesses, and that it will strive to further enhance its management structure and corporate governance. Following this, SuMi TRUST Holdings appointed two new external directors at the ordinary general meeting of shareholders held on June 26, 2015, and the number of external directors was increased to three. Furthermore, these three external directors, including the two newly appointed external directors, were appointed as independent officers as they satisfied the Independence Standards.

Reasons for the Appointment of External Directors

Soichi Shinohara: President of Kyoto Gakuen University. Mr. Shinohara was appointed external director, as he was expected to offer his wealth of knowledge about, and sophisticated insight into, economic issues both at home and abroad to further enhance the quality of SuMi TRUST Holdings' management. He developed his knowledge and insight in his capacity as an economist specializing in international economics and macroeconomics.

Takeshi Suzuki: Formerly an executive at Toyota Motor Corporation and Aioi Nissay Dowa Insurance Co., Ltd. Currently External Director of AICHI CORPORATION: Mr. Suzuki was appointed as an external director. He was expected to offer his wealth of experience and extensive insight developed in his capacity as a senior executive of a company to further enhance the quality of the management of SuMi TRUST Holdings.

Mikio Araki: President of The Japan Economic Research Institute, External Director of Kintetsu Group Holdings Co., Ltd. and External Auditor of Japan Freight Railway Company: Mr. Araki was appointed as an external director, having served as Deputy President (Representative Director) of Development Bank of Japan Inc. He was expected to offer his wealth of experience and extensive insight about finance developed in his capacity as a business leader to further enhance the quality of the management of SuMi TRUST Holdings.

(2) Corporate Auditors

SuMi TRUST Holdings has established nomination policies of external corporate auditors in the Basic Policy on Corporate Governance. External corporate auditors are decided from among a wide range of diversified individuals pursuant to the following nomination policies: (i) A person who satisfies the Independence Standards, and who is deemed unlikely to give rise to conflicts of interest with general shareholders of SuMi TRUST Holdings; (ii) A person who understands SuMi TRUST Holdings' management principles, and fully understands the social responsibilities and roles of SuMi TRUST Holdings as a trust bank group; (iii) A person who fully recognizes the role of external corporate auditor, and who is able to oversee the execution of business by directors from a neutral and objective standpoint, by leveraging the person's knowledge and activities in fields such as corporate management, economics, legal affairs, accounting, tax accounting, and auditing, and who is thereby able to contribute to enhancing the soundness and transparency of SuMi TRUST Holdings' management.

The Board of Corporate Auditors at SuMi TRUST Holdings is comprised of two full-time corporate auditors and two part-time corporate auditors (external corporate auditors), a total of four corporate auditors. Of these corporate auditors, the two external corporate auditors are in place to ensure the independence of audit functions. Furthermore, these two external corporate auditors were appointed as independent corporate auditors, as they satisfied the Independence Standards.

Reasons for the Appointment of External Auditors

Tetsuya Yoshimoto: Mr. Yoshimoto was appointed as an external auditor, having served in executive positions as a judge and Chairman of the National Public Service Ethics Board after retirement. He was expected to offer his wealth of experience in the legal community and high sense of morality to further enhance the quality of audits at SuMi TRUST Holdings.

Shinichi Saito: Representative Director, President and CEO of Japan Industrial Solutions Co., Ltd. and External Director of Sharp Corporation. Mr. Saito was appointed external auditor to further enhance the quality of audits at SuMi TRUST Holdings. He was expected to offer his wealth of experience in, and insight into, areas including treasury, accounting, overseas business, finance, and corporate rehabilitation, drawing on his career in the finance functions at a major trading conglomerate as well as in the consulting business at a leading auditing firm.