

1. Basic Philosophy

Capital management is aimed at ensuring the soundness of Sumitomo Trust’s business by improving our capital reserves and maintaining and increasing the efficiency of our business by making effective use of capital. Also, capital management encompasses the implementation of measures concerning capital adequacy, appropriate distribution, evaluation, monitoring and control of capital, and also calculation of the BIS capital adequacy ratio as stipulated by laws and regulations.

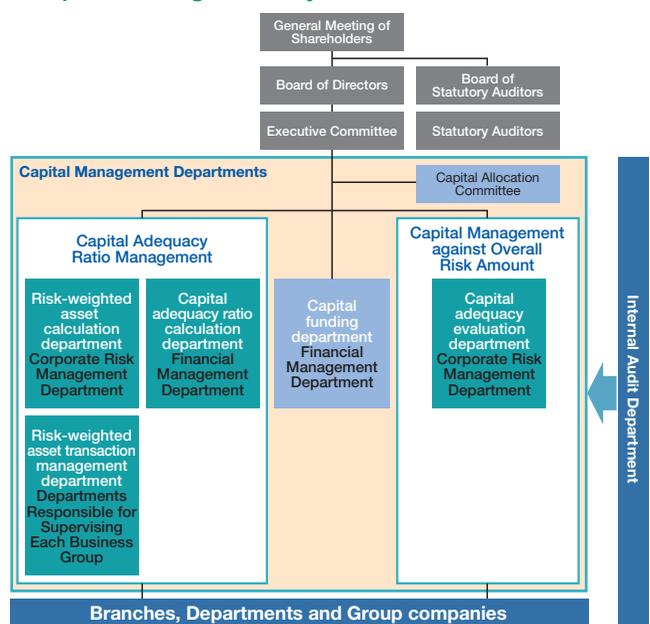
At Sumitomo Trust, we ensure sufficient capital to meet the risks we face, and make efforts to improve our capital and the effectiveness of its use by establishing a basic Capital Management Policy founded on our management policy and the basic policy of our internal control system.

2. Putting This Philosophy into Practice

(1) Basic Policy Concerning Capital Adequacy and the Capital Management System

At Sumitomo Trust, we aim to maintain sufficient capital by operating in accordance with a PDCA cycle as follows: 1) draw up a capital plan based on the external environment (economic environment, market environment, etc.) and the internal environment (risk profile, operational conditions, etc), 2) carry out the capital adequacy

• Capital Management System



measures decided in the capital plan, 3) monitor the capital situation and evaluate the sufficiency level of capital adequacy as appropriate, and 4) improve capital and risk control based on the above evaluations. Moreover, we have constructed a necessary system for the appropriate management of capital by installing a department in charge of capital adequacy evaluation and one in charge of capital adequacy ratio calculation as capital management departments.

(2) Capital Adequacy Evaluation Policy and Overall Risk Amount

At Sumitomo Trust, we evaluate capital and risk under the capital adequacy evaluation system multilaterally by establishing multiple definitions as follows.

For ensuring the capital adequacy, we compare risk capital, which is the sum of unrealized gains on securities and Tier I capital — the fundamental capital category, with the integrated risk amount, which takes into consideration the diversification effect between risk categories. Also in order to evaluate the overall risk amount at times of stress, when the assumed diversification effect is not obtained between risk categories, we compare this amount with the risk buffer, which is the combination of perpetual subordinated bonds* and risk capital.

On the other hand, we evaluate capital efficiency, comparing the appropriated capital allocated to divisions against the risk capital and the integrated risk amount.

The Board of Directors decides on a planned figure for the integrated risk amount as a framework standard for the bearable risk amount against the risk capital and the risk buffer, and a department in charge of capital adequacy evaluation monitors each month whether or not the performance values are within the planned figures. The monitoring results are reported quarterly to the meetings of the Executive Committee and the Board of Directors, and in this way we are maintaining capital sufficient and controlling risk.

*Perpetual subordinated bonds: unsecured bonds of low seniority with no maturity date.

(3) Capital Adequacy Ratio Calculation Policy

Sumitomo Trust recognizes the importance of the capital adequacy ratio calculation as well as its management. Accordingly, we work for the accurate calculation and appropriate management of the ratio in order to ensure its fairness and appropriateness.

Moreover, with regard to capital adequacy ratio management, we aim to raise the level and the efficiency of the management system by improving organic linkage using the risk management method employed for internal management.