

Results (Outline) of the Evaluation of the Board of Directors in Fiscal Year 2021



June 20, 2022

Evaluation framework for improving the effectiveness of the Board of Directors 2

Initiatives for evaluating the effectiveness of the Board of Directors

Towards greater Board effectiveness

- Sumitomo Mitsui Trust Holdings (hereinafter, "SuMi TRUST Holdings") conducts annual evaluation of the effectiveness of the Board of Directors as a whole (hereinafter, the "Evaluation of the Board of Directors"), and reviews and implements remedial measures for the challenges derived therefrom, whereby a PDCA cycle is activated for improving the effectiveness of the Board of Directors. (Fig. 1,2).

In the Evaluation of the Board of Directors in fiscal year 2021, assessments were conducted from multiple angles ;

- (1) Self-evaluation by the Board of Directors
- (2) the Board of Directors' evaluation of each committee
- (3) each committee's self-evaluation
- (4) executive officers' evaluations of the Board of Directors
- (5) Self-assessment of individual directors
- (6) Self-assessment of individual executive officers

In conjunction with these evaluations, we undergo reviews by third-party organizations (external consultants) to receive verification from different perspectives and gain new insights before conducting our own self-evaluations. (Fig. 3).

Assessments from multiple angles

Fig. 3: Board of Directors evaluation framework

Assessing what?		Who?		
		Directors	Committee members	Executive officers
Meeting body assessment	Board of Directors	(1)	—	(4)
	Committees	(2)	(3)	—
Self-assessment	As directors	(5)	—	—
	As executive officers	—	—	(6)
Interviews		○	—	—

Cycle of sustained function improvements and effectiveness evaluation process

Fig. 1: Board PDCA cycle

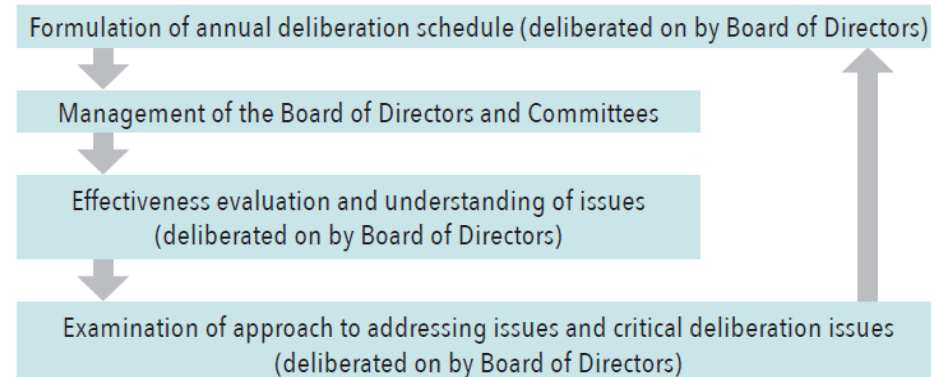


Fig. 2: Evaluation schedule

Month/Year	Evaluation Process
January to February 2022	Third-party organization (external consultant) was used to survey the directors and executive officers. Members of each committee were surveyed.
February to March 2022	Directors were interviewed by the third-party organization (external consultant).
April 2022	The Board of Directors deliberated the results of the evaluation of the Board of Directors.
May 2022	Areas of greater focus for future deliberations were discussed by the Board of Directors.
June 2022	Annual deliberation schedule for the Board of Directors was prepared.
July 2022	Annual deliberation schedule for each committee was prepared based on, among other considerations, the additional matters for consultation raised by the Board of Directors.

Broad outline

Outline of the Evaluation of the Board of Directors

- In the Evaluation of the Board of Directors in fiscal year 2021, SuMi TRUST Holdings conducted the evaluation of the effectiveness of the Board of Directors and each committee as follows, upon conducting questionnaires and interviews covering 106 items, and keeping in mind the results of the “Third party Evaluation” conducted by external consultant.(Fig. 1).

Key points of evaluation this fiscal year

- In fiscal year 2021, questions that seek to examine how the conduct of discussions have improved compared to in the past, as well as questions in regard to identifying key discussion items were asked with the objective of improving the effectiveness of the Board from the following fiscal year onwards. Also, with the objective of reaching a Board definition that is becoming of SuMi TRUST Holdings, steps were taken to project a future vision by introducing questions that ask respondents what the future of the Board should like, taking into account developments in the internal and external business environment. For example, the mounting pressure on companies to improve our corporate governance, as demonstrated by recent revisions to Japan’s Corporate Governance Code, and our formulation of a management strategy with an approach that backcasts from the type of financial group we want to be by the year 2030 (Fig. 2).

Key points of evaluation this fiscal year

Fig. 2: Evaluation perspectives for improving effectiveness

Fixed-point observation perspective

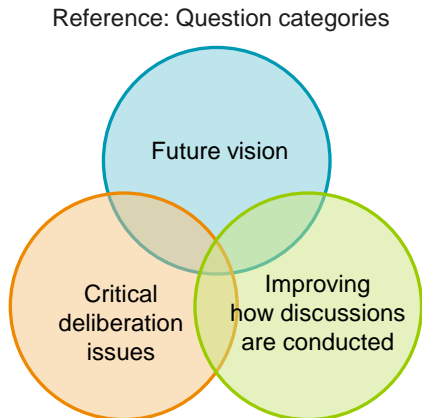
- Evaluating operational aspects (in view of enhancing discussions) and conducting past comparisons of how Board supervisory functions are being demonstrated

Issue examination perspective

- Examining how issues recognized in the previous evaluation are being addressed and implementing an effective PDCA cycle

Medium- to long-term direction perspective

- Formulating a future vision for the Board of Directors in light of the internal and external business environment



Ensuring an exhaustive evaluation

Fig. 1: Evaluation outline

Bodies to be evaluated	The Board of Directors, the Nominating Committee, the Compensation Committee, the Audit Committee, the Risk Committee, the Conflicts of Interest Committee		
Respondents	Directors and executive officers, members of each committee		
Method of inquiry	1) Questionnaires to directors, executive officers, and members of each committee (five-scale multiple choice questions and essay-type questions) 2) Interviews with directors by a third-party organization		
Evaluation items	1) Future vision of the Board	2 items	Free-form response, etc.
	2) Roles and functions of the Board (incl. self-assessment of individual directors)	15 items	Purpose, stakeholders, sustainability, management strategies, internal controls, Group governance, etc.
	3) Framework of the Board	4 items	Composition, liaison, acceptance, etc.
	4) Operation of the Board	4 items	Operation, enforcement and reflection of proposals, training opportunities, etc.
	5) Executive accountability	5 items	Autonomy, explanations, materials, etc.
	The demonstration of functions of each committee	6 items	The demonstration of functions/utilizing proposals, etc.
	Self-assessment items for the following committees are also evaluated		
	6) Nominating Committee	11 items	
	Compensation Committee	12 items	
	Audit Committee	24 items	
Risk Committee	12 items		
Conflicts of Interest Committee	10 items		
7) Items concerning themes for deep discussion at the Board of Directors	1 item	Free-form response	
Total	106 items		

*Executive officers evaluated 14 items among 1) through 6) of the evaluation items concerning the Board of Directors.

Results of the Evaluation of the Board of Directors in Fiscal Year 2021 (verification of measures to address challenges)

Measures to address the challenges recognized through the Evaluation of the Board of Directors in fiscal year 2020

Promote initiatives to address issues identified in the previous fiscal year

- The issues recognized in fiscal year 2020 evaluation of the Board of Directors are as follows.

【Issues identified at the Board of Directors in fiscal year 2020】

- (1) Improving discussions concerning Key Themes and medium- to long-term management issues and strategies set out in the Medium-Term Management Plan
- (2) Further improvement and validation of the effectiveness of the internal control system and governance on a Group-wide basis
- (3) Enhancement of dialogue with executives regarding the Board’s recognition of issues and acceleration of responses to the issues

- In fiscal year 2021 the Board endeavored to address the issues above and improve its effectiveness by adopting the measures shown in Fig. 1.

Using fiscal year 2021 evaluation to verify measures for addressing the above issues

Some improvements in issues from last fiscal year

- Some improvements in the issues concerning the Board of Directors and each committee identified last fiscal year were confirmed after assessing the answers to questions relating to the above activities in fiscal year 2021 evaluation, and by verifying the measures taken thus far by surveying the directors in the form of questionnaires and interviews.

Reference: Improving effectiveness with measures designed to address issues

Fig. 1: Measures to address the challenges and Evaluation of the Board of Directors

1)		Item
Issue	Improving discussions concerning important themes and medium- to long-term management issues and strategies set out in the Medium-Term Management Plan	
Measures and evaluation	Improvements in the Evaluation of the Board of Directors were observed in fiscal year 2021 as a result of the Board not only deepening its business portfolio strategy for enhancing corporate value, but also expanding its discussions with various stakeholders in mind from the view point of creating social value by deliberating in more detail business strategies pertaining to sustainability issues.	
2)		Item
Issue	Further improvement and validation of the effectiveness of the internal control system and governance on a Group-wide basis	
Measures and evaluation	The Board of Directors supervised and provided suggestions regarding measures implemented by persons executing business, such as the development of an overview for visualizing how risk is controlled, as well as improvements in management quality derived from the visualization and tighter control of administrative processes. It also monitored the building of a framework for overseeing Group affiliates. As a result of these efforts to strengthen supervision with the ultimate goal of enhancing the internal control system and corporate governance, improvements were observed in the evaluation this fiscal year.	
3)		Item
Issue	Enhancement of dialogue with executives regarding the Board of Directors’ recognition of issues and acceleration of responses to the issues	
Measures and evaluation	The Board of Directors shared its awareness of issues and furthered dialogue aimed at resolving them by improving the way it interacts with executives concerning opinions put forward at Board meetings. It also strengthened the way it shares issues by employing measures for improving its system of confirming what steps are being taken by executives in response to opinions delivered at not only Board meetings, but also committee meetings. As a result of these efforts, improvements were observed in the evaluation this fiscal year.	

Results of the Evaluation of the Board of Directors in Fiscal Year 2021

Summary of evaluation results

- In fiscal year 2021, the Board of Directors demonstrated its supervisory functions by engaging in discussions with various stakeholders in mind from the perspective of balancing the creation of both economic and social value as part of deliberations on both offensive and defensive strategies aimed at enhancing corporate value. For example, it continued to discuss, in greater detail, management strategies and internal controls, and also stepped up its discussions of sustainability issues.
- In the Evaluation of the Board of Directors for fiscal year 2021, SuMi TRUST Holdings confirmed that the content of the deliberations has been enhanced and the supervisory function has been strengthened as a result of the Board of Directors and each committee being operated with an awareness of its objectives, and that a certain level of effectiveness had been ensured.

Future vision of the Board of Directors

Putting stakeholders first

- As the Group's role as a corporation to build prosperity under the framework of a livable planet and a wholesome society continues to be redefined, the Board of Directors confirmed from the discussions concerning what the Board of Directors should look like in the future during its evaluation confirmed that it seeks to be a Board of Directors the one that prioritizes the interests of stakeholders and engages in discussions focused on important Group governance topics in order to fulfil its fiduciary duties for various stakeholders of the Group (see below).

Reference: Future vision of the Board of Directors — putting stakeholders first

Board framework

The diagram illustrates a cyclical process where the Board is at the center. It is influenced by (4) Input and (3) System, and it produces (2) Output, which leads to (1) Goals. The cycle then feeds back into the Board.

Item		Future vision of the Board
(1)	Goals	<ul style="list-style-type: none"> Achieving our "Purpose" Appropriate capital allocation to stakeholders (capital agenda) Sustainability as a company ⇒ Gaining the trust of all stakeholders as a fiduciary
(2)	Output	<ul style="list-style-type: none"> Improving the quality of important decision making Supervising execution of important business matter <p>*Important decision making (determining a basic management policy)</p> <ul style="list-style-type: none"> Purpose/materiality/value creation process Policy on establishing desirable stakeholder relationships Medium- to long-term management strategies Basic policy on internal controls
(3)	System	<ul style="list-style-type: none"> Organizational structure for enhancing quality of important decision making and monitoring functions Stakeholder-oriented mindset and skills for addressing issues of materiality
(4)	Input	<ul style="list-style-type: none"> Autonomous management Board accountability <p>*Accountability</p> <ul style="list-style-type: none"> Business activities and value creation Business portfolio/capital allocation Internal controls Establishment of desirable stakeholder relationships

Issues to address to improve effectiveness

The issues identified

- The Evaluation of the Board of Directors confirmed that a certain degree of effectiveness is being sustained, but at the same time, the following issues were identified as requiring improvement by the Board and each committee. As such, steps are being continuously taken to improve them.

[Issues identified in fiscal year 2021 Board evaluation]

- Enhancement of discussions towards the formulation of the next Medium-Term Management Plan
(Group management strategy and improvements in allocation of managerial resources in line with that strategy)
- Further improvements in Group administration functions by the Board in consideration of the characteristics of other Group companies
- Discussions oriented more towards various stakeholders

Topics of discussion for the Board of Directors next fiscal year

- In light of the aforementioned issues and with a view to next fiscal year, the Board will keep the interests of various stakeholders in mind when deliberating on the topics shown in Figure 1 so as to focus its discussions on important topics of Group governance.

Initiatives going forward

Towards further improvements in effectiveness

- In pursuing sustainable growth and the medium- to long-term enhancement of corporate value, SuMi TRUST Holdings is committed to further improving the effectiveness of the Board of Directors and each committee by continuously implementing the PDCA cycle through the evaluation of the Board of Directors.

Reference: Reflecting issues in Board discussions next fiscal year

Fig. 1: Examples of FY2022 discussion topics

Category	Topics
Purpose/materiality/value creation process	<ul style="list-style-type: none"> Penetration of purpose Materiality management, etc.
Relationships with stakeholders	<ul style="list-style-type: none"> Policy on dialogue with stakeholders Basic policy on sustainability, etc.
Management strategy/capital allocation	<ul style="list-style-type: none"> Group's next Medium-Term Management Plan Basic policy on allocation of Group's managerial resources, etc.
Group governance/internal controls	<ul style="list-style-type: none"> Enhancement of governance framework for Group management Risk management in accordance with trust banking group characteristics, etc.