

Corporate governance

SuMi TRUST Group is enhancing its corporate governance structure in line with its business model. In addition to the statutory committees of a company with Three Committees, we have also established a Risk Committee and Conflicts of Interest Committee, both of which function as advisory bodies to the Board of Directors. We also strive to enhance management transparency by appointing an external director as Chairman of the Board of Directors.

1 Message from Chairman of the Board of Directors



Isao Matsushita

External Director, Chairman of the Board of Directors, Chairman of the Nominating Committee

As Chairman of the Board of Directors

It has been six years since SuMi TRUST Holdings transitioned to an entity with Three Committees and I assumed the position of Chairman of the Board of Directors. The Company is a financial holding company that includes Sumitomo Mitsui TRUST Bank, Sumitomo Mitsui Trust Asset Management, Nikko Asset Management and other companies. In order to uphold a robust management foundation based on a high degree of self-discipline guided by our fiduciary spirit and to gain the unwavering trust of society, our Board of Directors are committed to enhancing and refining corporate governance with the objective of improving SuMi TRUST Group’s sustainable growth and medium- to long-term corporate value enhancement*1.

The most important role of the Board of Directors is to establish fundamental management policies and strategic direction for the company and to oversee overall management. While encouraging active discussion from directors and ensuring thorough deliberations including dissenting opinions, I believe that it is the role

expected of the Chairman to make the most of the knowledge of external directors, gather opinions while having an outside perspective, and lead the way to appropriate decision-making. The following is a summary of the priority topics discussed at the Board of Directors meeting in fiscal 2022, the efforts to improve the effectiveness of the supervisory body and other information.

*1 Please refer to the following link for the basic policy and approach to corporate governance. https://www.smth.jp/english/about_us/management/governance

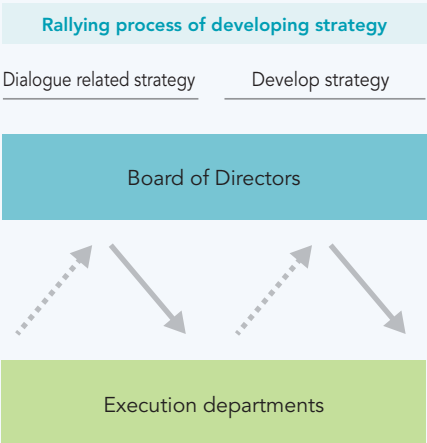
Discussion by the Board of Directors for the formulation of the Medium-Term Management Plan (FY2023–2025)

In May this year, we announced our new Medium-Term Management Plan (“New Medium-Term Plan”). The Medium-Term Management Plan was formulated for the second time after the change in institutional design, and from the viewpoint of utilizing the knowledge of external directors and other information, the Board of Directors deliberated on the overall policy. Meanwhile, the Executive side deliberated on proposals based on the opinions of the Board of Directors, and the Board of Directors discussed the proposals with the results of the

deliberation in mind. The deliberation on strategic planning was deepened through a collaborative discussion process between the Board of Directors and the execution departments. During the deliberations, we set management themes*2 and held a series of open-ended discussions. New Medium-Term Plan embodies the 3-year plan from fiscal 2023 through backcasting, while taking Aspiration by fiscal 2030 into account. We feel that we have formulated a plan that is consistent with our long-term vision and that is effective in practice.

■ Deliberations on the New Medium-Term Management Plan by the Board of Directors

Year/Month	Deliberations
2021	Jul./Oct. ● Business portfolio analysis as part of the value creation process Management theme
	Nov. ● Important management issues for each business (Reference: Board of Directors of SuMi TRUST Bank) SuMi TRUST Vision 2030 TB Topic
	Dec. ● Status of business portfolio analysis and reorganization based on the analysis Management theme
2022	Jul. ● Profitability analysis
	Aug./Oct. ● Discussion on planning next Midium-term Management Plan Management theme
	Dec. ● Direction of next Midium-term Management Plan of SuMiTRUST Group
2023	Jan. ● Direction of asset management business strategy as a group Management theme
	Feb. ● Management areas for value creation (Reference: Board of Directors of SuMi TRUST Bank) TB Topic
	Mar. ● SuMiTRUST Group Medium-term Management Plan



*2 The external directors of SuMi TRUST Bank also participate in discussions on management themes as Board meeting observers, not for the purpose of reaching conclusions, but rather to discuss important management issues and themes from a medium- to long-term perspective freely and openly, so that their viewpoints and opinions are capitalized on for management. In addition, agenda on important management issues at the board of directors of SuMi TRUST Bank that are deliberated together with our external directors are set as “TB Topics.”

Discussion at the Board of Directors on Purpose and Sustainability

SuMi TRUST Holdings’ Board of Directors deliberates on Purpose and sustainability from a variety of aspects, including the identification of high-priority management issues (materiality) to realize the reason for existence (Purpose), the establishment of internal management systems and compensation framework to support the determination and implementation of management policies, and disclosure for dialogue with stakeholders.

■ Discussion at the Board of Directors on Purpose and sustainability

Year/Month		Deliberations		Year/Month	Deliberations		Perspectives for sustainability	
2022	Mar.	Policy on sustainability	<div>Management theme</div> <div>Management policies</div>	2023	Jan.	Revision of the Human Rights Policy Joint framework of materiality management and risk management	<div>Management policies</div> <div>Internal management system</div>	<div><div>Purpose</div><div>↓</div><div>Materiality</div><div>↓</div><div>Management policies</div><div>↙ ↘</div><div>Compensation system Internal management system</div><div>↓</div><div>Disclosure</div></div>
	May.	Penetration of Purpose	<div>Purpose</div>		Feb.	Management areas for value creation (Reference: Board of Directors of SuMi TRUST Bank)	<div>TB Topic</div> <div>Management policies</div>	
	Jun.	(Compensation Committee) Review method for reflecting ESG performance in executive remuneration	<div>Compensation system</div>	Mar.	Sustainability Policy	<div>Management policies</div>		
	Sep.	Enhance the risk management framework of human rights	<div>Internal management system</div>	Apr.	Policy for addressing climate change Integrated Report	<div>Management policies</div> <div>Disclosure</div>		
	Oct.	Developing climate change policies and the risk management framework	<div>Management policies</div>	May.	Sustainability Report	<div>Disclosure</div>		
	Nov./Dec.	Review of materiality	<div>Management theme</div> <div>Materiality</div>					

Improving the effectiveness of the Board of Directors

The role of a corporation is being redefined as an entity that builds prosperity under the framework of a habitable planet and a sound society. Hence, after deliberating on the future vision of the Board of Directors, our Board of Directors has confirmed that it is oriented toward a Board of Directors*3 that fulfills its fiduciary duty to our diverse stakeholders. The diagram below is a functional exercise framework that organizes the goals for achieving the future vision of the Board of Directors and the roles, functions, systems and execution to achieve them. At SuMi TRUST Group, an effective Board of Directors is defined as “Board of Directors that strives for

sustainable improvement to realize its vision.” The Group conducts annual evaluations of the effectiveness of the Board of Directors (“Evaluation of the Board of Directors”) and other methods to verify that the ideal state is achieved, and implementation of a PDCA cycle for further enhancement.



*3 We define this as the “the Board of Directors of stakeholderism.”

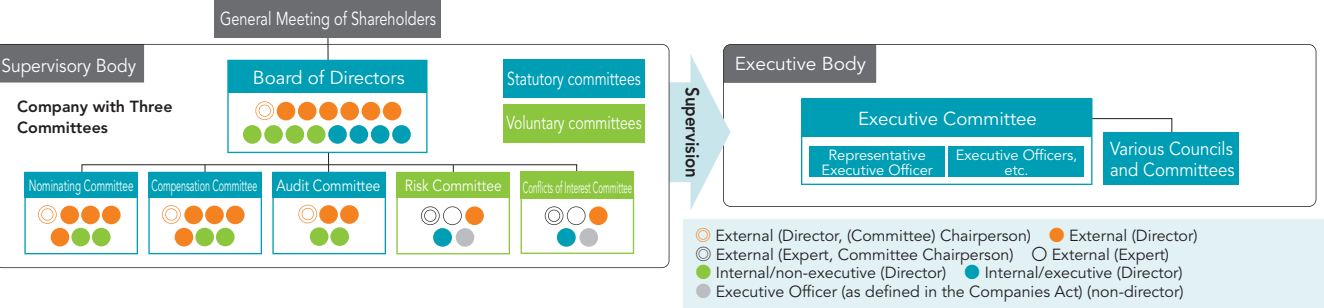
Framework for the Board to Fulfill its Functions		Category	Future vision of the Board “the Board of Directors of stakeholderism”
	(i) Goals	(i) Goals	<ul style="list-style-type: none">Realizing “Purpose”Fair capital allocation to stakeholders (capital agenda)Sustainability as a corporation ⇒ Gaining the trust of all stakeholders as a fiduciary
	(ii) Output	(ii) Output	<ul style="list-style-type: none">Improving the quality of important decision-makingImportant decision-making (determination of basic management policies) Purpose, materiality, value creation process / policy on establishing desirable stakeholder relationships / medium- to long-term management strategies / basic policy on internal managementSupervising execution of important business matter
	(iii) System	(iii) System	<ul style="list-style-type: none">Organizational structure to enhance the quality of important decision-making and monitoring functionStakeholder-oriented mindset and skills for addressing materiality
	(iv) Input	(iv) Input	<ul style="list-style-type: none">Autonomous managementAccountability for the Board*4 <p>*4. Accountability Status of business activities and value creation / Status of business portfolios and capital distribution / Status of internal management / Status of the establishment of desirable stakeholder relationships</p>

The Company is a financial group with a trust bank at its core, and as one of the largest trustees of trust assets in Japan, I feel that it conducts business of a very public nature. As Chairman of the Board of Directors, I will

continue to strive to maintain our sustainability and protect our stakeholders’ long-term interests in order to fulfill our fiduciary duties to investors and other stakeholders.

2 Composition and roles of the Board of Directors and Committees

■ Supervisory structure (as of June 30, 2023)



■ Overview of the Board of Directors and Committees

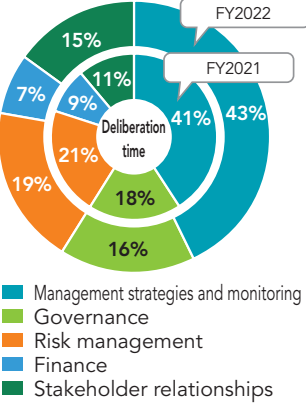
	Roles	Main matters for deliberation in FY2022 ¹
Board of Directors (16 times)	The Board of Directors determines the basic management policies of SuMi TRUST Group, such as medium- to long-term management strategies and a policy on internal management, and supervises the execution status. In this way and in order to earn trust as fiduciary from all stakeholders of the Group, it distributes resources appropriately to the stakeholders toward the realization of its Purpose and ensures corporate sustainability.	<ul style="list-style-type: none">Penetration of Purpose, materiality management, dialogue policy with stakeholders, sustainability policy, our next Medium-Term Management Plan, improving of our Group governance framework, risk management based on our Group's characteristics, and others
	Authority and roles	Main matters for deliberation in FY2022 ¹
Nominating Committee (14 times)	The Nominating Committee makes decisions on the details of proposals concerning the appointment and dismissal of Directors for submission to the General Meeting of Shareholders, and deliberates on and responds to inquiries about the appointment and dismissal of Executive Officers, including the President, and the management team succession plans, as well as the appointment and dismissal of directors, including the president, of SuMi TRUST Bank, and the appointment and dismissal of directors of Sumitomo Mitsui Trust Asset Management.	<ul style="list-style-type: none">Determination of the content of proposals for the election of directors to be submitted to the General Meeting of Shareholders, the election of directors of SuMi TRUST Bank and Sumitomo Mitsui Trust Asset Management and othersEnhancement of the succession plans and skill matrix
Compensation Committee (11 times)	The Compensation Committee establishes a policy for determining the details of individual compensation for directors and executive officers, and determines the amount of individual compensation for directors and executive officers in accordance with the policy. In addition, it deliberates on and responds to inquiries concerning the policy for determining the details of individual compensation of directors from the Board of Directors of SuMi TRUST Bank and Sumitomo Mitsui Trust Asset Management.	<ul style="list-style-type: none">Policies for determining compensation for directors and executive officers based on a stakeholder-oriented approach, compensation amounts for each individual. Policies for determining compensation for SuMi TRUST Bank and Sumitomo Mitsui Trust Asset Management and others.
Audit Committee (17 times)	The Audit Committee audits the execution of duties by executive officers and directors, prepares audit reports, and determines the content of proposals regarding the election and dismissal of a financial auditor, and regarding refusal to reappoint a financial auditor to be submitted to the General Meeting of Shareholders.	<ul style="list-style-type: none">Progress in the management strategies and status of the formulation of the next Medium-Term Management Plan, as well as key audit items, including the development and enhancement of the Group-wide internal management system, and control on appropriate and accurate financial reporting and disclosures
	Objectives and roles (Received inquiries on the following matters from the Board of Directors to review and report back on their appropriateness, etc.)	Main matters for deliberation in FY2022 ¹
Risk Committee (7 times)	Matters concerning the business environment surrounding SuMi TRUST Group, top risks and materiality, and those concerning the operation of its risk appetite framework, risk management, and monitoring of the effectiveness of the internal management system related to compliance management	<ul style="list-style-type: none">Appropriateness of the Group's risk management system, the current status of risk management initiatives in light of the recent external environment, the development and penetration of risk culture, and others
Conflicts of Interest Committee (9 times)	Validity of the Group's conflict-of-interest management system, the effectiveness and enhancement of the system for conflict-of-interest management, client explanation management and customer support management, policy for FD initiatives and action plans of SuMi TRUST Group companies, and other particularly important matters concerning conflict-of-interest management and the penetration of FD at the Group	<ul style="list-style-type: none">Enhancement of conflict-of-interest management in anticipation of the expansion of the Group and its business and the development of the next Medium-Term Management Plan, the best interests of clients as a trust group and the penetration and practicing FD

*1 July 2022 to June 2023 *2 Please see page 64 for the composition, etc. of each committee.

■ Main Themes for Deliberations and Topics at the Board of Directors during FY2022

Theme category	Main topics
Purpose/materiality/ value creation process	Materiality management, penetration of Purpose throughout the Group
Policy on establishing desirable stakeholder relationships	Dialogue policy with stakeholders, sustainability policy, clients' best interests, strategic shareholdings and voting rights exercise, policy on climate change and human rights, well-being/DE&I/workstyle reforms
Medium- to long-term management strategies	Group's Medium-Term Management Plan
Discipline on capital distribution	Human capital, DX strategy, capital policy (including policy for shareholder returns), equity investment policy and discipline
Basic policy on internal management	Group governance, risk management based on SuMi TRUST Group's characteristics, conduct risk management for the Group, conflict-of-interest management, fiduciary duties, cybersecurity, and business continuity resilience

■ Deliberations by the Board of Directors



Message from an External Director



Hiroko Kawamoto

External Director
Chairperson of
the Compensation Committee

Discussion on strengthening human capital and branding to support the successful implementation of the new Medium-term Management Plan

Through the annual evaluation of the Board of Directors, we set the main themes for discussion, reflecting changes in the internal and external environment as well as opinions from directors, and engaged in active discussion. At the Board of Directors meeting in fiscal 2022, the main theme was the formulation of the new Medium-Term Management Plan. In order for SuMi TRUST Group, which has a wide range of diverse business areas, to foster synergies by further consolidating its business areas, I expressed my opinion concerning the new Midium-Term Management Plan at the Board of Directors meeting. I stressed that strengthening human capital, which is the foundation for diverse employees with various specialties to work together and take advantage of their strengths, and branding of the core group, which integrates the value provided by the entire group and resonates with stakeholders, will be the key to its success. Specifically, we took the opportunity to disseminate a variety of messages, including communication to foster an accurate understanding of DE&I to employees, improving employee cohesion through easy-to-understand catchphrases, and examining the need for accurate analysis of the current situation and measures based on that analysis in order to develop branding strategies. We will continue to ask ourselves what we can do to enhance SuMi TRUST Group's corporate value and encourage sustainable development.

3 Evaluation of the effectiveness of the Board of Directors in fiscal 2022

Every year we conduct an evaluation of the Board of Directors in an effort to enhance its effectiveness by considering and adopting measures aimed at improving issues identified in the evaluation and by implementing the PDCA cycle (please refer to the link below for the results of the evaluation of the Board of Directors in fiscal 2022 (overview)).

https://www.smith.jp/english/about_us/management/governance#anc-04

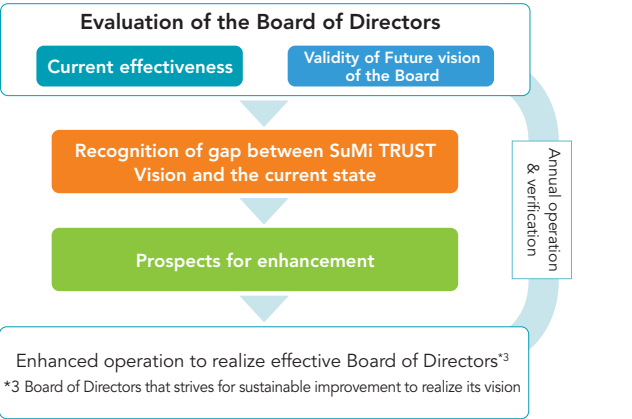
(1) Key points for evaluation in fiscal 2022

In fiscal 2022, we confirmed the effectiveness of the current framework, where an effective Board of Directors is defined as “the Board of Directors that strives for sustainable improvement to realize its vision.” We set questions to ask about issues and areas for improvement, and based on our understanding of the current Gap (difference between current and ideal state), we charted the path for enhancement.

(2) Results of the evaluation of the Board of Directors in fiscal 2022 (evaluation results, issues and future initiatives)

At the meeting of the Board of Directors in fiscal 2022, we confirmed improvements in effectiveness through the formulation of the Medium-Term Management Plan, internal management of the Group, enhanced discussions on policies for building desirable relationships with diverse stakeholders and other measures. The evaluation of the Board of Directors indicated that the Board and each committee are aware of their respective objectives and are endeavoring to invigorate discussions and improve their supervisory functions. As a result, we believe that an adequate degree of effectiveness is being sustained.

At the same time, we also recognized the issues that the Board of Directors and various committees need to improve and enhance in order to realize the future vision of the Board. Based on the recognition of these issues, in fiscal 2023, we will deepen discussions on the allocation of management resources based on business portfolio analysis in order to achieve steady implementation of the Medium-Term Management Plan. We will also conduct more effective deliberations on enhancing group management and accountability to stakeholders from both the offensive and defensive perspectives.



Issues that are recognized in FY2022 evaluation
(1) Discussion on business portfolios for improved profitability and growth capabilities of business strategies
(2) Organic collaboration with the subsidiaries and affiliates, and discussions to realize the Group strategy based on the collaboration
(3) Enhanced discussions in light of expectations from various stakeholders

(Reference) External Directors’ Meeting

The External Directors’ Meeting*1 is a meeting body intended to foster trust among external directors through frank exchange of opinions and shared recognition from an independent and objective standpoint and to utilize the opinions expressed at the meeting to fulfil their roles as external directors by channeling them to the executive level as necessary. In fiscal 2022, two meetings were held to discuss topics such as the “governance framework and management of the Board of Directors,” and “organizing the roles of the holding company and the subsidiary bank and the exercise of their functions.” These discussions led to future discussions by the Board of Directors, improvements in management and other operations.

*1 Voluntary meetings organized by external directors and not prescribed in any of internal regulations.

4 Foundation supporting the Board of Directors

(1) Basic principles regarding the composition of the Board of Directors

The Board of Directors at SuMi TRUST Holdings has appointed a sufficient number of directors considered necessary and appropriate for the Board to demonstrate an effective supervisory function as required of a financial holding company tasked with the management of SuMi TRUST Group. In determining the number of directors, due consideration is also given to ensuring diversity and expertise among directors.

In light of the importance of the role of independent external directors in corporate governance, we have established a principle that, at least one-third of the directors on the Board of Directors should be independent external directors. The Company has established and disclosed Independence Standards of Independent Directors. In principle, all statutory committees are chaired by external directors.

Message from the Chairman of the Nominating Committee



Isao Matsushita

External Director,
Chairman of the Board of
Directors, Chairman of the
Nominating Committee

Current composition of the Board of Directors

Having defined SuMi TRUST Group’s reason for existence (Purpose) and identified high-priority issues (materiality), we also recognize that the mission of resolving social issues presents us with growth opportunities. This is why we have placed at the core of our management approach the notion of balanced creation of both social and economic value. For this reason, candidates for directors are selected from among those with expertise and experience (skills) that address a variety of high-priority issues (materiality).

In order to fulfill the fiduciary duty to our stakeholders, the Nominating Committee, of which I am the chairman, continuously reviews high-priority issues (materiality) and corresponding skills, taking the environment surrounding SuMi TRUST Group into consideration, and examines the appropriate composition and diversity of the Board of Directors. Through this approach, it ensures a balanced composition that can appropriately supervise a wide range of business areas in our Group and provide accurate opinions and advice.

We believe that the current structure of our Board of Directors provides a comprehensive coverage of skill and diversity.*2

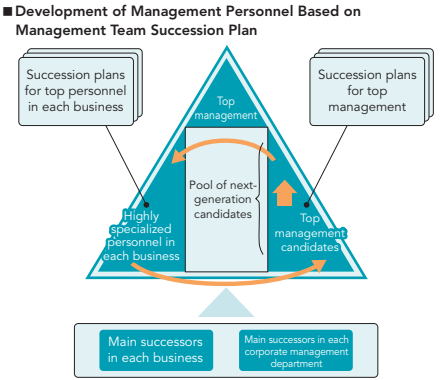
*2 Please refer to pages 64 and 65 for the expertise and experience (skills) possessed by our directors.

(2) Succession plans

In order to achieve sustainable growth for the Group and enhance its corporate value, we have formulated succession plans for the top management of SuMi TRUST Holdings, SuMi TRUST Bank and Sumitomo Mitsui Trust Asset Management. We have also created management personnel development plans for those in charge of managing each business and those engaged in corporate management. We have defined the ideal qualities and requirements for the nominees required to serve as directors and officers, and systematically manage and cultivate a group of candidates.

Training and appointment process

The Nominating Committee selects a pool of top management candidates each year based on the proposals and opinions presented by the executive side. Based on the current and future business environment, the Nominating Committee deliberates on future development policies, assignments to be given to the candidates and other matters based on performance, achievements, evaluations, expertise and experience (skills), and reflects such matters as placement in different departments from the next fiscal year onward, giving candidates an opportunity to develop and to overcome challenges. We also continue to track the status of development. While continuing this cycle, when the Company actually appoints new top management members, the Nominating Committee will deliberate on the candidates’ performance, achievements, evaluations, expertise and experience (skills), in a multifaceted manner, with a focus on candidates who have been trained during the cycle, and will ultimately report to the Board of Directors. The progress of succession plans and development plans are periodically reported to the Board of Directors.



(3) Compensation system for directors and executive officers

Executive compensation is intended to function effectively as an incentive for the improvement of corporate performance and enhancement of enterprise value. Rather than focusing on a single-year performance evaluation in which short-term revenue contributions are emphasized, we are building a compensation system with a balance of near-term incentives and medium- to long-term incentives.

In principle, the compensation structure is a combination of monthly compensation (comprising of fixed compensation and individual performance compensation), bonuses for directors and executive officers (performance-linked bonuses) and stock-based remuneration (share delivery trust).

With respect to executive bonuses (performance-linked bonuses) and stock-based remuneration (share delivery trust), the

Company has introduced a system whereby each item listed in the table below is set as an indicator (KPI) and reflected in the compensation amount. In fiscal 2022, we changed the rating system for stock-based compensation to better reflect ESG-related contributions. Specifically, the ratio of “Short-term Performance: Medium-term Performance: ESG Overall Rating = 1:1:1” is reflected in the performance evaluation of stock compensation. ESG assessment categories have been reviewed in light of materiality and now is comprised of the following five categories: climate change, fiduciary duties (FD) & client satisfaction (CS), employee engagement, DE&I (empowerment of women), and assessments obtained from ESG assessment organizations. The results are evaluated from both quantitative and qualitative perspectives and reflected in executive compensation.

■ Indicators (KPIs) Concerning Performance-Linked Compensation

Types of performance-linked compensation	Indicators (KPIs) for performance-linked compensation	Near-term / medium-term	Target*3	Actual*3	Evaluation Weight	Calculation method
--	---	-------------------------	----------	----------	-------------------	--------------------

Bonus for directors and executive officers

performance-linked bonuses	(i) Consolidated net business profit	Linked to near-term earnings	310 bn yen	324.6 bn yen	66.7%	Calculated based on a weighted average with a 2:1 weighting on the achievement rates for (i) and (ii), respectively
	(ii) Consolidated net profit attributable to owners of the parent		190 bn yen	191 bn yen	33.3%	

Stock Compensation*4

share delivery trust	(i) Consolidated net business profit	Linked to near-term earnings	310 bn yen	324.6 bn yen	33.3%	22.2%	Achievement rate vs. target
	(ii) Consolidated net profit attributable to owners of the parent		190 bn yen	191 bn yen		11.1%	
	(iii) Consolidated shareholders' equity and ROE	Linked to medium-term financial metrics	Around 7%	6.93%	33.3%	11.1%	Assessment score calculated based on qualitative assessment of progress on achieving Medium-Term Management Plan targets
	(iv) Consolidated CET1 ratio (common equity tier 1 capital ratio)*5		Lower 10% range	9.5%		11.1%	
	(v) Consolidated overhead ratio (OHR)		Lower 60% range	60.1%		11.1%	
	(vi) ESG overall assessment (categories: climate change, FD & CS, employee engagement, DE&I (empowerment of women, etc.), ESG assessment organizations*6)	Linked to ESG	-	-	33.3%	33.3%	Assessment score calculated based on overall assessment comprising both quantitative and qualitative evaluations of activities in each assessment category

*3 (i) and (ii) are fiscal 2022 actual results versus fiscal 2022 forecasts. (iii) through (v) are fiscal 2022 results versus fiscal 2022 targets established under the Medium-Term Management Plan.
*4 Compensation with the use of a trust scheme. Points are awarded every fiscal year based on the achievement rates for the KPIs above and delivered in the form of shares upon retirement. Malus (reduction/cancellation before delivery of shares) and clawback (recovery after delivery of shares) provisions apply.
*5 Finalized Basel III base *6 “ESG assessment organizations” are MSCI, FTSE and Sustainalytics.