

## Response to Financial Crisis and Global Recession

The business environment surrounding Sumitomo Trust has changed substantially due to the financial crisis sparked by the U.S. subprime mortgage problems and the rise of a global recession. Sumitomo Trust is taking the following measures to respond to these dramatic changes in the business environment.

### (1) Elimination of Divisional Management System

We believe the surrounding business environment has entered a "New Paradigm," which was brought on by the financial crisis and global recession, demanding a departure from once-accepted values and principles of conduct. Consequently, Sumitomo Trust abolished the divisional management system on April 1, 2009, to achieve company-wide cross-departmental product, capabilities, and business development beyond the framework of each business group, and a new way of thinking for every officer and employee. Furthermore, we are working toward strengthening our comprehensive issue solutions and proposal abilities, utilizing our Five Major Functions mentioned earlier. For details on each business, please refer to pages 25–36.

### (2) Strengthening of the Credit Risk Management Framework

Given the deteriorating overseas credit investment assets due to the worsening environment of global financial markets, and worsening earnings of domestic companies with the recession, Sumitomo Trust strengthened its credit risk management framework. Furthermore, in addition to establishing the Credit Risk Management Group to strengthen our credit supervision system, we also implemented policies for a more advanced screening process, including review of the operations of our internal credit rating system.

We also established the Credit Investment Committee under the Credit Risk Committee to strengthen our analysis and risk control for credit investment. Moreover, we are working to strengthen our overall risk management framework for credit investments. For example, we are taking advantage of the know-how of external experts and have started to quantify price fluctuation risks in credit investments, and we are rebuilding our framework of capital adequacy verification.

## Internal Controls Report System (Implementation started in fiscal year 2008)

The Internal Control Report System is stipulated under Article 24-4-4 of the Financial Instruments and Exchange Law ("FIEL") (System for Ensuring Appropriateness of Statements on Finance and Accounting and Other Information). This is a system to ensure the reliability of financial reporting as business managers prepare an Internal Control Report whereupon their evaluation concerning the effectiveness of the report is given, and auditing is conducted by an Independent Auditor for submission to the relevant financial authorities. Specifically, listed companies submitting a Securities Report for a business year beginning on or after April 1, 2008, obliges (1) the management to submit an Internal Control Report evaluating the effectiveness of the internal control system concerning financial reporting, and an (2) attachment of an audited, Internal Control Report by an Independent Auditor concerning results of the evaluation given by the management for the effectiveness of an internal control over financial reporting.

### • Keyword 1: Internal Control Report

The management is responsible for appropriate development and implementation of internal control with regard to financial reporting. When evaluating the effectiveness of internal control, the management must also decide on the policy and scope for the evaluation and formulate a plan. Further, they are required to prepare an Internal Control Report based on results of the evaluation of the state of their development and implementation, and submit this with the Securities Report.

### • Keyword 2: Internal Control Audit Report

An Independent Auditor audits the evaluation given by the management on internal control concerning financial reporting, and provides opinion in the form of an Internal Control Audit Report. The same Independent Auditor who has audited the financial statements conducts this internal control audit as well and reports to the Board of Directors together with the audit report on the financial statements.

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### **Corporate Governance, Internal Control**

This section describes that the essence of the trust business (“Confidence and Integrity”) and Sumitomo’s basic business principle (“Placing Prime Importance on Credibility and Sound Management”) comprise the basic policy of Sumitomo Trust and the platform of corporate governance.

It presents an overall picture of our corporate governance framework and internal control activities to expedite decision making and business execution processes.

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### **Compliance Structure, Fulfilling Accountability to Our Clients**

These sections describe that compliance with laws, ordinances, and social norms is positioned as one of the most important management issues and that we give first priority to the development of an environment that allows our officers and employees to behave with sincerity and fairness.

Apart from thoroughly implementing proper solicitation and sales procedures that are based on clients’ viewpoints, we provide explanation on our philosophy and actions concerning client protection that seeks to enhance business operations and improve customer satisfaction on the basis of their feedback.

• P. 44–46

### **Risk Management, Capital Management**

These sections explain the types of our management risk, outline of our risk management framework, and policy and system concerning capital management.

They also introduce our measures to adapt to the Basel II framework and other regulations, initiatives to strengthen our credit risk management framework considering the worsening global financial markets, and a more advanced risk management framework given the financial crisis sparked by U.S. subprime mortgage problems, as well as efforts to build a risk management system that can respond flexibly to changes in the business environment.

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### **Management of Information Disclosure and Internal Auditing**

This section presents our philosophy and actions to disclose information in a fair and timely manner.

It also explains our efforts aimed at ensuring and improving the effectiveness of internal auditing.

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### **Efforts to Enhance Customer Satisfaction**

This section presents our philosophy and action to enhance customer satisfaction through the PDCA (Plan-Do-Check-Action) cycle, which starts with our company-wide customer satisfaction promotion activities: Japanese Orange Flower Project and active listening to client feedback.

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### **Personnel who Support Sumitomo Trust**

This section describes our initiatives to respect individuality, encourage self-reliance, and the will to take on challenges and promote an open corporate culture and human resource nurturing through fair evaluation and appointment.

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### **Corporate Social Responsibility Management**

“Sumitomo’s business must benefit not only Sumitomo itself but also the nation and society in general” — Teigo Iba, Second Director General of the Sumitomo Family Enterprise. This section introduces some of our efforts aimed at both contributing to the sustainable growth of society and enhancing our own corporate value, with this quotation as our basic philosophy.