SUMITOMO MITSUI TRUST INTERNATIONAL LIMITED

Introduction

Sumitomo Mitsui Trust International Limited (the "Firm") complies with the regulatory capital framework derived from the European Union's Capital Requirements Directives and Capital Requirements Regulation ("CRD/CRR") that substantively continues to apply in the UK since Brexit (having been 'on-shored' into the law of the United Kingdom).

This report has been prepared in accordance with the requirements of the CRD/CRR framework applicable for reporting periods ended on or before 31st December 2021.

The requirements under the CRD/CRR framework are replaced by those of the new Investment Firms Prudential Regime (IFPR) which came into force on 1st January 2022. For the next reporting period the Firm is subject to FCA MIFIDPRU rules.

The CRD/CRR framework consists of three Pillars:

- Pillar 1 sets out the minimum capital amount that meets the firm's credit, market and operational risk;
- Pillar 2 requires the firm to assess whether its Pillar 1 capital is adequate to meet its risks through the Internal Capital Adequacy Assessment Process ("ICAAP") and to report annually to FCA;
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position.

The Firm is authorised and regulated by the FCA and is subject to the requirements under this framework. The Firm is categorised as an IFPRU Limited Licence Firm and is not subject to consolidated reporting with other entities.

The information below is published for the purposes of the Firm's Pillar 3 disclosure and is updated annually and published on the Firm's website, https://uk.sumitrust-am.com/disclosures-uk-row. It is based on the Firm's financial position at its year end reporting date. The disclosures do not constitute any form of audited statement and have been produced solely for the purposes of the required Pillar 3 disclosure. They should not be relied upon in making judgements about the Firm and are only subject to external verification to the extent that they are equivalent to those made under financial reporting requirements.

Governance

The Board of Directors is responsible for governance setting the framework within which the management of the Firm is conducted including risk management and regulatory compliance.

The Firm is a wholly owned subsidiary of the ultimate parent company, Sumitomo Mitsui Trust Holdings, Inc. ("SMTH") and of the immediate parent company, Sumitomo Mitsui Trust Asset Management Co., Ltd. ("SMTAM"). Sumitomo Mitsui Trust Bank, Limited ("SMTB"), the principal operating company in the group, is a wholly owned subsidiary of the ultimate parent company, SMTH.

The Board of Directors comprises the following directors:

- One non-executive director as chairman, nominated for appointment by SMTAM;
- Two non-executive directors, nominated for appointment by SMTAM;
- Two executive directors, responsible for the day to day management of the Firm, nominated by SMTAM.

Taking account of the size of the Firm and the nature of its activities, it has not been considered appropriate to establish committees for different aspects of governance and supervision. The responsibilities which would otherwise be discharged by committees are retained and discharged by the Board of Directors itself.

Risk management

The Firm is managed by the directors who determine its business strategy and risk appetite. They are also responsible for establishing and maintaining the Firm's governance arrangements along with designing and implementing a risk management framework that recognises the risks that the business faces.

The directors determine how the risk the business faces may be mitigated and assess the arrangements to manage those risks. They manage the Firm's risks through a framework of policies and procedures having regard to relevant laws, standards, principles and rules with the aim of operating defined and transparent risk management framework. These policies and procedures are updated as required.

The directors conduct a formal semi-annual review of their risks, controls and other risk mitigation arrangements and assess their effectiveness and an annual ICAAP. They identify material risks they consider the financial impact of these risks as part of their business planning and capital management and conclude whether the amount of regulatory capital is adequate.

The Firm's activities expose it to a variety of risks. It is considered that the principal risks are:

Capital risk

The Firm manages its capital to ensure that it will be able to continue as a going concern. The capital structure of the Firm comprises share capital and accumulated losses, represented mainly by demand and term deposits.

Market risk

Price risk: Although price risk is a secondary risk for the Firm, income from investment management business is sensitive to market conditions and price movements through portfolio valuations, and the resulting income is also sensitive to exchange rate movements.

Interest rate risk: The Firm's interest rate risk arises from cash and cash equivalents and term deposits. Term deposits with banks are for fixed rates for the period of the deposit, all with a maturity of less than one year.

Exchange rate risk: The Firm's exposure to exchange rate movements is limited. Over the last three years there have been net outflows in foreign currencies, covered periodically by spot foreign exchange deals.

Credit risk

Credit risk is the risk that counterparties and customers of the Firm will be unable to meet their obligations to the Firm either in part or in full. It arises from cash and cash equivalents, term deposits and credit exposures to customers, including outstanding debtors.

Credit risk is managed through established credit policies. The parent company assesses the quality of the banks with which deposits are placed and sets credit limits throughout the group. The Firm has placed all deposits in accordance with approved policies and limits. Funds were placed in the year with financial institutions with a credit rating of at least 'A-' using Standard & Poor's categorisation.

Liquidity risk

The Firm is exposed to liquidity risk to the extent that it is unable to meet its daily payment obligations as and when they fall due. It monitors rolling forecasts of liquidity on the basis of expected cash flow. It manages liquidity risk by depositing funds available for investment for periods of up to one year.

Concentration risk

The Firm is exposed to concentration risk. During the year most of net investment management income was received from two related parties. This concentration is unavoidable to the extent that the Firm's current business is based on supporting affiliated companies' activities outside Japan.

Operational risk

Operational risk is the risk of a loss resulting from inadequate or failed internal processes, staff and systems or from external events, including legal and regulatory risk.

The Firm seeks to limit its operational risks to acceptable levels by maintaining a strong control environment, ensuring that employees have appropriate skills and training and by establishing an effective management structure.

Statement of capital adequacy

Quarterly Reporting is submitted to the FCA in the form of Common Reporting of Capital Adequacy (“COREP”) reports.

As a consequence of its scope of business permissions the Firm is classified as an IFPRU Limited Licence Firm and is subject to reporting requirements under Part Three of the UK on-shored version of the Capital Requirements Regulation ("UK CRR").

Capital adequacy calculations as at 31 December 2021 under Pillar 1 and Pillar 2	**£000**
Capital resources	
Tier One capital: Share capital and audited reserves	20,320
Deduct: Intangible assets	2
Deduct: Deferred tax assets	45
Capital resources	20,273
Risk weighted assets exposure amounts	
Risk exposure amounts are calculated as the highest of:	
Initial capital requirement: €125,000	105
Credit risk requirement and market risk requirement	7,837
Fixed overheads requirement: 25% of audited expenses	11,607
Summary capital adequacy calculation	
Capital resources	20,273
Risk weighted assets exposure amounts	11,607
Total capital ratio requirement: 8% of risk weighted assets	929
Surplus of total capital over total capital ratio requirement	19,344
Total capital ratio under Pillar 1	175%
Total capital ratio under Pillar 2	175%

Assessment of Capital Adequacy under Pillar 2

The Firm’s overall approach to assessing the adequacy of its internal capital is set out in its ICAAP. It is an integral part of the Firm’s risk management framework and is reviewed and updated at least annually. In the ICAAP, the Firm has considered the risks identified in its risk management policy and has quantified the level of capital it needs to cover those risks. The Firm has also considered the future plans of the business to determine the impact any future development or growth the business may have on the levels of capital it needs to hold. The latest ICAAP report was issued and approved by the Board of the Firm in October 2021.

As part of the ICAAP the adequacy of the amount calculated for the Pillar 1 capital resources requirement was reviewed and it was concluded that no additional amount was necessary for the Pillar 2 capital resources requirement. The Firm holds capital resources which comfortably exceed the capital resources requirements under Pillar 1 and Pillar 2.

Own funds requirement under MIFIDPRU

The equivalent of own funds requirement for the Firm under MIFIDPRU rules as at 31st December 2021 would have been £3,084,000. The key factor for the Firm is K-AUM (or Assets Under Management) requirement.

The resulting surplus of own funds of £20,273,000 over own funds requirement of £3,084,000 would have been £17,189,000.

Unencumbered assets

The Firm has no pledged assets or other encumbrances.

Leverage ratio

The Firm has a leverage ratio of 90%.

Article 89 disclosures

The Firm has made the prescribed disclosures by way of a note annexed to the audited financial statements.

Remuneration Policy

The FCA Remuneration Code requires the Firm to identify individuals whose business activities may have a material risk impact on its profile ("Remuneration Code Staff") and comply with the Code in respect of those staff. The Firm has been categorised by the FCA as an IFPRU Limited Licence Firm and therefore, for the purposes of the Remuneration Code, is categorised as a Proportionality Tier Four Firm.

All executive directors and other employees of the Firm fall below the quantitative criteria that are applied to determine who count as Remuneration Code Staff. However, the Firm has currently designated Remuneration Code Staff as a result of the application of qualitative criteria that are relevant for this purpose.

The Firm's directors are responsible for establishing the business strategy, objectives and long term interests of the Firm and have implemented compliance policies, risk management processes and control functions to achieve these objectives, including processes designed to manage or mitigate potential conflicts of interest.

As a subsidiary of the Sumitomo Mitsui Trust Group the Firm is subject to remuneration policies set by its ultimate parent company and follows the same processes in respect of the evaluation and award of remuneration for its executive directors and other senior managers appointed by the parent company, although these are carried out in accordance with the Firm's own remuneration policy as a UK regulated firm, which is set and updated from time to time by the Firm's Board. These policies have been assessed to ensure they comply with the requirements of the Remuneration Code and are consistent with promoting effective risk management rather than risk-taking by the Firm and its employees. The Board of the Firm has responsibility for the oversight of the Firm's remuneration policy and processes and reviews the remuneration policy at least annually.

The parent company reviews and approves the remuneration of the executive directors and other senior managers appointed by the parent company. The executive directors review and approve the remuneration of locally appointed staff. The Firm and its ultimate and immediate parent companies operate discretionary bonus schemes, with half-yearly assessments, paid in June and December for periods October to March and April to September respectively.

Fuller information concerning the remuneration policy of the Firm is available in separate document published on the Firm's website, https://uk.sumitrust-am.com/disclosures-uk-row.