

Risk Management

1. Basic Philosophy on Risk Management

Reducing various risks surrounding a company is indispensable in averting any damage to its corporate value. Even so, strengthening the company's risk management structure ensures a robust corporate foundation and contributes to the enhancement of its corporate value. As the trust bank group which boasts the largest scale and the highest status in Japan, SuMi TRUST Group regards the development

of a risk management system suited to the characteristics of its operations and environmental changes as one of the most important management issues it faces. Accordingly, SuMi TRUST Group is making constant efforts to enhance and advance its risk management, which forms the basis of operations that support business expansion and sustainable growth of SuMi TRUST Group.

2. Risk Management Structure

The roles and responsibilities of the management structure and principal departments related to risk management are as follows.

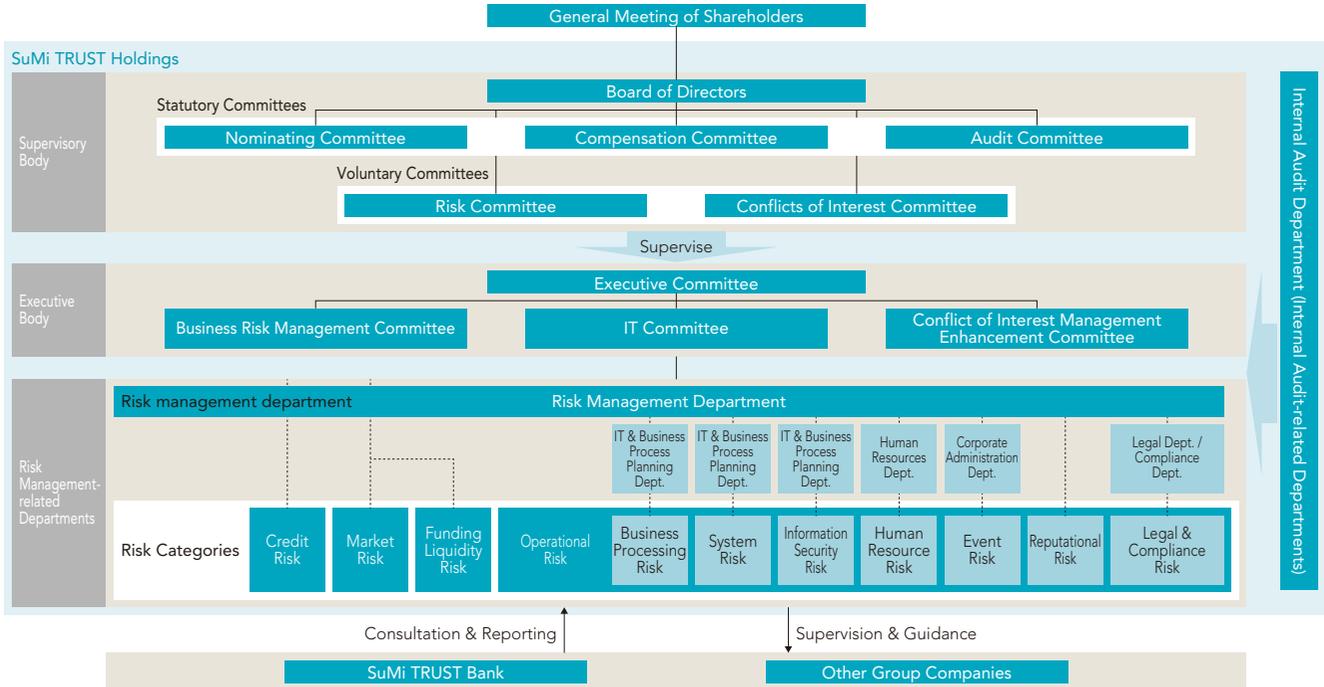
The Responsibilities and Roles of Each Governing Body

- 1) The Board of Directors formulates policies on the identification, assessment, monitoring, control and reduction of risks, formulates management plans that include the Risk Capital Allocation Plan and Risk Management Plan and informs SuMi TRUST Group of the plans. The Board also builds an appropriate reporting system and grants the necessary authority for it, among other efforts.
- 2) The Executive Committee, pursuant to the policies set forth by the Board of Directors, approves arrangements for the identification, assessment, monitoring, control and reduction of risks and develops systems to enable

the implementation of such arrangements, among other efforts.

- 3) The front offices, pursuant to the Risk Management Rules and other related risk management regulations, accurately recognize risks and conducts operations including practicing appropriate controls commensurate with the size and characteristics of the risk with the goal of ensuring the effectiveness of risk management.
- 4) The risk management-related departments develop and implement risk management processes including the identification, assessment, monitoring, control and reduction of risks under their control. To achieve effective checks on the front offices, the risk management-related departments plan and promote risk management systems by monitoring the risk status and risk management activities of the front offices and by making reports to management periodically or as necessary.

Risk Management Structure



3. Risk Management Operations

Types of Risk

SuMi TRUST Group classifies risk categories by causes of the risks it faces in its management as a whole into “credit risk,” “market risk,” “funding risk” and “operational risk.” SuMi TRUST Group manages these risks in accordance with their respective characteristics.

Risk Management Methods

SuMi TRUST Holdings has established a department to supervise the overall group risk management and monitor the risk status of SuMi TRUST Group as a whole, and has designated other risk management-related departments to supervise risk management for each risk category. These departments provide appropriate supervision of and guidance to group companies as needed.

SuMi TRUST Holdings has also established Risk Management Rules covering the basic points of risk management for SuMi TRUST Group as a whole. It has clarified the authority and organizational structure so that it can appropriately perform a series of activities, which include the identification, assessment, monitoring, control and reduction of risks. SuMi TRUST Holdings has also created risk management policies and plans (the Risk Management Plan and the Risk Capital Allocation Plan).

Group companies develop appropriate risk management systems suited to the characteristics of their own operations and risks, based on SuMi TRUST Holdings’ policy concerning risk management.

Enterprise Risk Management

(1) Enterprise Risk Management Approach

SuMi TRUST Group has built an enterprise risk management approach using risk management as a framework to ensure sound management that keeps risks within the bounds of our corporate strength. Using enterprise risk management, we apply risk capital allocation management and conduct

stress tests, and based on basic policies established by the Group, we execute appropriate management to optimize risk-return performance and increase corporate value by evaluating our capital adequacy level and reporting on these to the Board of Directors, the Executive Committee, etc. on a regular basis.

(2) Risk Capital Allocation Operations

For the purpose of the SuMi TRUST Group’s capital allocation operations, SuMi TRUST Holdings assesses capital adequacy level, in consideration of the external environment, risk-return performance status, strategic targets, and the results of its stress test, and allocates capital of the SuMi TRUST Group to each group company based on its risks (credit risk, market risk, and operational risk). The risk capital allocation plan is subject to the approval of the Board of Directors.

Each group company operates its business in compliance with the allocated amount of risk capital (risk capital). The risk management supervision department monitors adherence to the allocated risk capital (risk capital) and the risk amount status on a monthly basis and reports to the Board of Directors and others.

The risk capital allocation plan is reexamined semiannually, and also whenever deemed necessary due to modifications to the business plan of any one of the group companies or changes in risk status, etc.

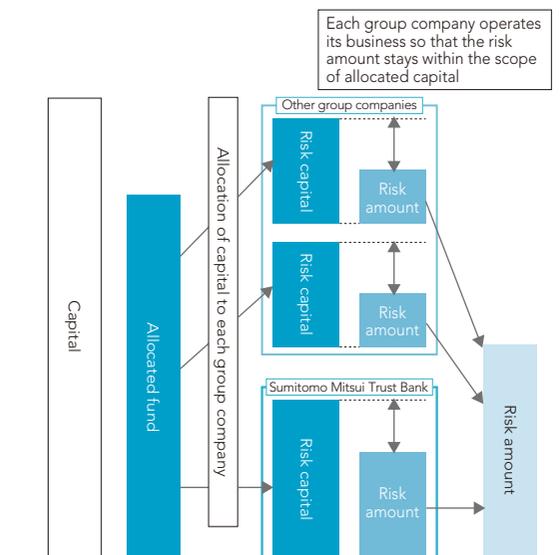
(3) Assessment of Capital Adequacy Level, Capital Strategy

The capital management departments assess the level of capital adequacy from the viewpoint of soundness each time a risk capital allocation plan is formulated or reexamined, and reports to the Board of Directors and others.

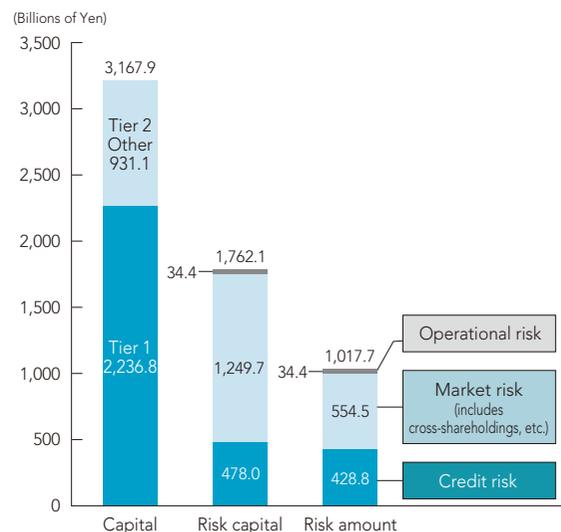
The SuMi TRUST Group assesses capital adequacy level multilaterally by establishing multiple definitions of capital and risk as follows.

From the viewpoint of ensuring business continuity, the

Capital Allocation Scheme



Capital and Risk Capital (within a 99% confidence interval, 1 year holding period)



SuMi TRUST Group assesses the capital adequacy level by comparing the amount of risk with a confidence interval of 99% with the regulatory required Common Equity Tier 1 capital (allocation fund). Also, from the viewpoint of depositor protection, it compares the amount of risk with a confidence interval of 99.9% and the amount of risk with a confidence interval of 99% after the consideration of stress events with the regulatory required total capital.

(4) Stress Testing

It is becoming increasingly important to develop and review countermeasures beforehand, against contingencies such as a financial crisis. These measures should be based on prior analysis and recognition of the impact on corporate management and finance, in the event of materialization of the stress event.

The SuMi TRUST Group conducts stress tests under the risk capital allocation plan (economic capital) and the capital adequacy ratio plan (regulatory capital), and utilizes the result for purposes including assessment of capital adequacy levels and development of countermeasures against the occurrence of the risks (contingency plan) when formulating management plans.

■ Stress Test Framework

When formulating our management plan, we devise multiple scenarios as a point of departure for discussion such as the impact on our portfolio if events that actually happened in the past 10 to 20 years reoccurred (historical

scenarios) and forward-looking scenarios that have a relatively high probability of occurrence depending on the market environment that would have a large impact on corporate management (hypothetical scenarios). The next step is to review and make a final selection of scenarios for use in formulating the plan. Based on these scenarios, we estimate the size of losses in the event a risk were realized, evaluate the impact against our capital adequacy level, and report the results to the Board of Directors etc. within the reporting framework that has been established.

(5) Capital Adequacy Status

Under the risk capital allocation plan, against total capital of ¥3,167.9 billion (Common Equity Tier 1 capital of ¥2,236.8 billion) of SuMi TRUST Holdings on a consolidated basis, the allocated risk capital (risk capital) is ¥1,762.1 billion. Risk capital actually used (risk weights) is ¥1,017.7 billion. In addition, the net difference of ¥1,405.8 billion from subtracting allocated risk capital (risk capital) from total capital is at a sufficient level in view of the results of stress tests and other factors.

(6) Upgrading of Integrated Risk Management and Capital Management Systems

The SuMi TRUST Group will continuously verify the scope of risk to be managed, risk measurement methods, risk capital allocation methods, capital adequacy level assessment methods, etc., so that integrated risk management and capital management will be more effective, and will strive to improve and upgrade the systems.

Compliance with BIS Capital Adequacy Regulations

Basel III capital adequacy ratio (CAR) rules, which are aimed at improving the quality and quantity of equity capital and bolstering risk recognition, took effect as the rules for Japan from the end of March 2013, replacing Basel II rules, which have been in effect since the end of March 2007. While enabling greater refinement in the assessment of risks facing financial institutions, the Basel III CAR rules also seek to encourage financial institutions to enhance their risk management capabilities and comprise the following “Three Pillars.”

The SuMi TRUST Group has established a system to comply with the regulations in the course of enterprise risk management. Moreover, it is committed to further enhancing its risk management performance by constantly stepping up its compliance with new international financial regulations. As part of these efforts, the SuMi TRUST Group adopted the Advanced IRB Approach to credit risks from the end of March 2015, and the Advanced Measurement Approach to operational risks from the end of March 2014 in the calculation of the capital adequacy ratio.

(1) “The First Pillar”

The first pillar is designed to manage the required capital calculated under the regulation-prescribed methods. An internationally active bank is required to have a minimal capital against the aggregate of credit risk, market risk and

operational risk, in addition to further elaborating the measurement of credit risk.

Banks are to choose risk methods according to their internal risk management frameworks, and we have adopted the approaches indicated on the next page.

(2) “The Second Pillar”

The second pillar comprises the management of overall risks, including “interest rate risk in the banking account” and “credit concentration risk,” which are particularly important among risks not covered by the first pillar, by the banks themselves, and the examination of the banks’ capital adequacy by the banking supervisory authorities through the processes of evaluation and supervision. It is aimed at maintaining and improving the soundness of the management of banks. The SuMi TRUST Group is managing these risks within the internal risk management framework.

(3) “The Third Pillar”

The third pillar is designed to aim at maintaining and improving the soundness of bank management by enhancing information disclosure regarding matters related to the first and second pillars, such as capital adequacy and risk management, thereby increasing the effectiveness of market discipline to be exerted on banks.

Management Status of Individual Risks

Credit Risk	
Definition	Risk that the Group incurs losses due to the value of an asset (including off-balance sheet assets) decreasing or impairing owing to such reasons as deterioration in the financial condition of an obligor. Of this, "country risk" in particular means risk that the Group incurs losses on credit provided overseas, due to foreign exchange, political and economic conditions of the country of the obligor.
Basic policy	<ul style="list-style-type: none"> A credit risk management system and an asset evaluation management system are developed to ensure the soundness and adequacy of credit-related operations, in accordance with established basic policies on Group-wide credit risk management. Meanwhile, we are dealing with obligors, based on the understanding that it is critical to keep informed of the obligors' actual business status and provide them with management consultation and guidance along with assistance for business improvement initiatives, in an effort to mitigate credit risk. Likewise, the affiliated banks engage in appropriate credit risk management based on risk management systems established in accordance with the aforementioned basic policy.
Risk management system	<ul style="list-style-type: none"> The Risk Management Department is designated as a department responsible for credit risk management at SuMi TRUST Holdings and engages in monitoring and analysis of the credit risk status across the Group. The department also provides supervision and guidance to affiliated banks and companies. The Risk Management Department is designated as a department responsible for credit risk management at affiliated banks as well, while the credit supervision departments, the departments responsible for problem loans management, and the departments responsible for asset evaluation/management are designated as departments responsible for credit risk-related management.
Risk management method	<p>An obligor's business status is managed on a consolidated basis across the Group. Not only loans but also assets and off-balance sheet assets associated with credit risk are managed on an integrated basis.</p> <p>Credit risk is evaluated and measured using criteria including credit ratings, while credit risk is adequately controlled through measures such as the imposition of risk limits and management of concentrated credit risk. The status of credit portfolio (concentration of credit to certain industry sectors or specific groups) is also adequately grasped and controlled.</p>

Market Risk	
Definition	Risk that the Group incurs losses due to fluctuations in the value of assets/liabilities (including off-balance sheet assets/liabilities), or in the earnings generated from assets/liabilities, due to fluctuations in various market risk factors, such as interest rates, foreign exchange rates, stocks, commodities, and credit spreads. Of this, "market liquidity risk" in particular means risk that the Group incurs losses caused in a situation where it becomes impossible to conduct transactions in the market or becomes obligatory to trade at prices much more disadvantageous than usual due to market turmoil.
Basic policy	<ul style="list-style-type: none"> Adequate market risk management is in place, commensurate with the Group's strategic goals as well as the scale, characteristics, and risk profile of business activities, to ensure the soundness and adequacy of business activities, in accordance with established basic policies on Group-wide market risk management. Our affiliated banks also engage in market risk management in accordance with risk management policies established on the basis of the aforementioned basic policy.
Risk management system	<ul style="list-style-type: none"> The Risk Management Department is designated as a department responsible for market risk management at SuMi TRUST Holdings and engages in monitoring and analysis of market risk status across the Group. The department also provides supervision and guidance to affiliated banks. An adequate market risk management framework is in place at our affiliated banks, where the front office (trading/marketing departments), the back office (administrative departments), and the middle office (departments responsible for market risk management) are separated to achieve effective checks and balances between them.
Risk management method	Market risk is managed through monitoring and control of the status of conformity to the risk limits established based on risk capital allocated commensurate with the financial strength of each organizational unit, and to the alarm points established to prevent enlargement of loss. Meanwhile, market risk is measured by VaR (Value at Risk: the maximum amount of loss anticipated within a certain holding period and within a certain confidence interval), while stress testing is carried out to supplement such VaR-based measurement. Interest rate risk in the banking book in terms of the outlier criteria under Basel II is managed by regular monitoring.

Funding Risk	
Definition	Risk that the Group incurs losses in a situation where it becomes impossible to secure necessary funds or becomes obligatory to raise funds at interest rates significantly higher than usual.
Basic policy	<ul style="list-style-type: none"> Adequate funding risk management is in place, commensurate with the Group's strategic goals as well as the scale, characteristics, and risk profile of business activities to ensure the soundness and adequacy of business activities, in accordance with established basic policies on Group-wide funding risk management. Our affiliated banks also engage in funding risk management in accordance with risk management policies established on the basis of the aforementioned basic policy.
Risk management system	<ul style="list-style-type: none"> The Risk Management Department is designated as a department responsible for funding risk management at SuMi TRUST Holdings and engages in monitoring and analysis of funding risk status across the Group. The department also provides supervision and guidance to affiliated banks. At our affiliated banks, an adequate funding risk management framework is in place, where the independence of the department responsible for funding risk management from the departments responsible for funding management and the trading/marketing departments is ensured to achieve effective checks and balances between them.
Risk management method	We adequately grasp the current degree of tightness of funding under the stipulated classification, based on analysis of information collected from domestic and overseas sources. We conduct funding operations in compliance with adequate predetermined limits in order to avoid funding risk and carry out stress testing to develop contingency plans, thus ensuring crisis preparedness.

Operational Risk	
Definition	Risk that the Group incurs losses resulting from inadequate or failed internal processes, people and systems or from external events.
Basic policy	<ul style="list-style-type: none"> Adequate operational risk management is in place, commensurate with the scale and characteristics of business activities and risks, based on the recognition that operational risk is an inevitable risk associated with business execution, to ensure the soundness and adequacy of business activities, in accordance with established basic policies on Group-wide operational risk management. Our affiliated banks also engage in operational risk management in accordance with risk management policies established on the basis of the aforementioned basic policy.
Risk management system	<ul style="list-style-type: none"> The Risk Management Department is designated as a department responsible for overall operational risk management at SuMi TRUST Holdings, while departments responsible for business processing risk and system risk are separately designated. <p>The Risk Management Department also engages in monitoring and analysis of overall operational risk status across the Group, while providing supervision and guidance to the affiliated banks.</p> <ul style="list-style-type: none"> Likewise at the affiliated banks, departments responsible for the above three risk categories are separately designated.
Risk management method	The Group regularly carries out self-assessments with respect to internal control (CSA: Control Self Assessment) and measurement of operational risk to adequately identify and assess the risk from both qualitative and quantitative aspects. On this basis, the Group develops measures for preventing such risk from materializing, action plans in the event it does materialize, and recurrence prevention measures based on the analysis of its causal factors, in an effort to mitigate risk. Risk mitigation measures developed through the above exercise are tested for its effectiveness, as part of the process for review and improvement thereof.

Operational Risk Sub-categories

Business Processing Risk	
Definition	Risk that the Group incurs losses due to inappropriate business procedures arising from executives or employees neglecting to engage in proper business activities, or other incidents such as accident or fraud.
Risk management method	The IT & Business Process Planning Department is responsible for business processing risk. The Department comprehensively deliberates such risks and operational efficiency issues across businesses. It also promotes the development of systems to ensure effective management of business processing risks from a company-wide perspective. Additionally, a department to supervise and instruct business process has been established within each business to verify rules they set out and to instruct and train the head office departments and branches on business processing in general.
System Risk	
Definition	Risk that the Group incurs losses due to such reasons as computer system failure, malfunction and defects, as well as the risk that the Group incurs losses due to unauthorized use of a computer.
Risk management method	The reliability of hardware, software and system operations is being enhanced through measures such as hardware maintenance and securing its backup and alternative functions, conducting backups and preparing manuals. Measures are also being taken to ensure the safety of information systems and prevent unauthorized access and use. Additionally, a clear notification and response system has been established to minimize the impact of malfunctions and disasters on information systems and enable quick recovery and business continuity. This system is complemented by the preparation of manuals for back-up measures and recovery procedures and the implementation of operational education and training.
Information Security Risk	
Definition	Risk that the Group incurs losses because information assets are not properly maintained or managed. This includes information leaks, incorrect information, an inability to use the information system or misuse of information.
Risk management method	Each information asset held has been assigned an importance level according to the degree of damage its leakage, loss, alteration, etc. could have on SuMi TRUST Holdings and its customers. Appropriate security measures are being taken. This effort involves determining the methods for acquiring, using, managing, storing, internally communicating, taking out and disposing information assets depending on their level of importance. * For responses to cyber attacks, see page 103.
Legal & Compliance Risk	
Definition	Risk that the Group incurs losses due to uncertain legal aspects of transactions, or due to insufficient compliance with laws, regulations, etc.
Risk management method	The consistency and compatibility of internal rules and the legality and appropriateness of transactions and business operations are being verified from a legal perspective (through legal checks, etc.).
Human Resource Risk	
Definition	Risk that the Group incurs losses due to personnel and labor management issues, such as unequal or unfair management of personnel and harassment.
Risk management method	A management system is in place to deal with personnel and labor management issues such as unfairness and inequality in personnel matters and harassment. The system involves internal seminars, interviews and establishing consultation desks.
Event Risk	
Definition	Risk that the Group incurs losses due to external events that impair business, such as natural disasters, crimes such as terrorism, damage to public infrastructure that prevents its functioning, the spread of infectious diseases, and the inappropriate use or management of tangible assets.
Risk management method	Preventive measures for disasters and their mitigation, crime and safe-driving management are being implemented. Business continuity management systems have also been developed. The aim is to deal with a variety of incidents including fires, crimes, traffic accidents, natural disasters and epidemics that can disrupt operations. *Please see the section below on this page for information on crisis management and business continuity planning (BCP) in the event of disasters.
Reputational Risk	
Definition	Risk that the Group incurs losses as a result of deterioration in reputation for SuMi TRUST Holdings or its subsidiaries, owing to such reasons as mass media reports, rumors or speculation.
Risk management method	A system is in place to prevent media coverage, rumors and hearsay that threaten to impair the reputation of SuMi TRUST Holdings and its subsidiaries. The system also provides customer care and makes prompt and appropriate public announcements in the event of reputational damage.

Crisis Management and Business Continuity Plan in Emergencies

Initiatives Conducted by Sumitomo Mitsui Trust Holdings and Sumitomo Mitsui Trust Bank

SuMi TRUST Holdings and SuMi TRUST Bank have developed contingency plans in order to quickly implement emergency response measures in the event of emergencies, such as natural disasters, computer system breakdowns and outbreaks of new infectious diseases.

Moreover, regarding important business operations, such as financial settlement, SuMi TRUST Holdings and SuMi TRUST Bank have developed systems to continue business, including BCPs (business continuity plans) and backup offices. In order to ensure the effectiveness of such systems, they periodically conduct exercises and revise BCPs.

When the crisis is serious and its impact is extensive,

causing serious disruptions to the normal business operations of SuMi TRUST Bank and the Group and making it necessary to urgently make comprehensive and high-level management judgment, the Group will establish an emergency response headquarters as a company-wide response organization and will quickly implement emergency response measures.

In particular, in preparation for the possible occurrence of a major earthquake, SuMi TRUST Bank, which has branches across Japan, periodically conducts exercises in order to make a response that gives consideration to the safety of customers and employees and to business

continuity and ensure the effectiveness of the response.

As for company-wide response, in order to enhance the effectiveness of the functions of the emergency response headquarters, the Group is strengthening systems for information gathering and information coordination, in addition to periodically conducting exercises, and it is also promoting the enhancement of emergency response systems in the Osaka

area on the assumption of a disaster in the Tokyo area.

Meanwhile, branches are striving to strengthen response capability through periodic exercises and are promoting disaster countermeasures in light of the location condition, the status of principal facilities and individual branches' specific circumstances. Branches are also developing a system for mutual support among them.

Code of Conduct for Executives and Employees

1. Executives and employees must fully recognize and understand the importance of crisis management and prepare for emergencies. At the same time, they must strive to develop their knowledge in normal times so that they can quickly and appropriately respond in the event of an emergency.

2. In the event of an emergency, executives and employees must make judgments and take actions based on the following principles:

(1) Securing the safety of life

In the event of an emergency, the top priority must be placed on securing the safety of customers, executives and employees, and their families. Executives and employees must also always give priority to humanitarian considerations when taking various emergency response measures.

(2) Protection of Sumitomo Mitsui Trust Bank's Corporate Assets

By taking disaster prevention and mitigation measures in preparation for the possible occurrence of emergencies, executives and employees must protect Sumitomo Mitsui Trust Bank's corporate assets in the event of an emergency. They must also do

their utmost to take risk mitigation measures to guard against adverse effects that may disrupt business activities.

(3) Business Continuity and Early Restoration

In the event of an emergency, executives and employees must strive to quickly restore and continue priority business operations.

(4) Cooperation with Local Communities

In the event of an emergency, executives and employees must strive to cooperate with local communities in rescue and other local activities.

Cyber Attacks

Response to Threat of Cyber Attacks

The threat of cyber attacks and the damage they can inflict are growing both in Japan and overseas. SuMi TRUST Holdings is engaged in the following activities to protect the precious assets of our customers from the attacks.

Improvement of Internal Response Systems in Preparation of Cyber Attacks

To respond to cyber attacks, SuMi TRUST Holdings monitors computer systems of SuMi TRUST Bank around the clock. In addition, SuMi TRUST Holdings has established SuMiTRUST-CSIRT as an internal organization for gathering information, conducting analysis and implementing measures relating to cyber attacks, and coordinates with outside expert organizations to strengthen its management system.

Enhancement of Internet Banking Transaction Security

In terms of internet banking, SuMi TRUST Bank offers "Rapport," a type of security software specifically for internet banking, free of charge to help shield customers' precious deposits from fraudulent transactions.

SuMi TRUST Holdings will continue to keep abreast of other companies' moves and new technologies and implement robust security measures so that customers' transactions remain safe. The measures include the early detection and prevention of unauthorized remittances.

Systems for Introducing New Products and New Operations

When starting to handle new products or when engaging in new operations, it is necessary to develop various systems in order to continue offering products and services, including determining in advance whether there are any inherent risks and identifying their type, evaluating and managing such risks, and providing explanatory materials and methods to clients. To that end, we have developed a product examination system. In the product examination process, multiple departments carry out verification from various angles, with emphasis on introducing products and services that will earn the trust of clients. We also conduct verification through regular monitoring after the product has been introduced.

Product Examination Process

