

## Management Structure:

# Risk Management

## 1. Basic Initiative Policy

Even while the Japanese economy is on a recovery trend and the U.S. economy is keeping up a steady pace, the interest rates have generally remained at exceptionally low levels, and the markets are subject to considerable volatility in market risk, geopolitical risk and other areas. Furthermore, the trend for stronger international financial regulations has been gaining momentum around the world since the Lehman crisis. In this environment, we think that there is an increasing need for more advanced risk management and preventive action.

As a trust bank group that seeks to be “The Trust Bank,” the SuMi TRUST Group regards strengthening and enhancing the autonomous risk management structure as one of its most important management issues, in light of the changes in the operating environment in Japan and overseas and considering the strategies and risk profiles of each group company. Accordingly, the SuMi TRUST Group is making constant efforts to enhance and advance its risk management, which forms the basis of business operations for the expansion of the business scope and sustainable growth of the SuMi TRUST Group. As part of these efforts, the SuMi TRUST Group from the end of March 2015 adopted the advanced internal rating-based approach to credit risks in the calculation of the capital adequacy ratio.

In FY2015, the SuMi TRUST Group as a whole is responding swiftly and accurately to capital and liquidity regulations including Basel III and is also improving its risk management system to respond mainly to the expansion of global businesses as outlined in the Midterm Management Plan.

### • Risk Categories

Risk Category	Definition
Credit Risk	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.
Market Risk	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 significantly disadvantageous than usual due to market turmoil.
Funding Risk	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.
Operational Risk (Below are “risk sub-categories”)	Risk that the Group incurs losses resulting from inadequate or failed internal processes, people and systems or from external events.
Business Processing Risk	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.
System Risk	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.
Information Security Risk	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.
Legal & Compliance Risk	Risk that the Group incurs losses due to uncertain legal aspects of transactions, or due to insufficient compliance with laws, regulations, etc.
Human Resource Risk	Risk that the Group incurs losses due to personnel and labor management issues, such as unequal or unfair management of personnel and harassment.
Event Risk	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.
Reputational Risk	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.

## 2. Outline of Initiatives

### (1) Types of Risk

The SuMi TRUST Group classifies risk categories by the cause of risks faced by the whole group in business operations into “Credit risk,” “Market risk,” “Funding risk,” and “Operational risk.” It manages these risks according to the characteristics of respective risks.

### (2) Risk Management Methods

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

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

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

### (3) Risk Management Structure

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

#### 1) Board of Directors

Clarifies SuMi TRUST Group's management policy and strategic goals, formulates the risk management policy based on the strategic goals, supervises development of appropriate risk management system, and implements appropriate measures to raise awareness of the risk management policy throughout the SuMi TRUST Group.

#### 2) Directors, Officers in Charge

Directors are fully aware of the importance of risk management, and officers in charge of risk management-related departments consider policies and specific measures for developing and establishing proper risk management systems.

#### 3) Risk Management-related Departments

Accurately recognize risk status, and conduct appropriate management and operations regarding risks, through a series of activities, which include risk identification, assessment, monitoring, control and reduction.

#### 4) Internal Audit Department

Verifies the appropriateness and effectiveness of risk management system as a department independent of business execution.

### (4) Enterprise Risk Management and Integrated Risk Management (Economic Capital Management)

The SuMi TRUST Group has established a department to supervise the overall group risk management. It comprehensively measures risks unique to the SuMi TRUST Group organization which each group company cannot recognize alone, such as spread of risks within the SuMi TRUST Group. It manages risks by comparing them with SuMi TRUST Group's overall financial strength (Enterprise Risk Management).

In addition, among the risks subject to the Enterprise Risk Management, the SuMi TRUST Group combines risks which are quantifiable with a unified criteria such as the integrated VaR\*, and manages these risks by comparing them with SuMi TRUST Group's overall financial strength, which is indicated by its capital efficiency (Integrated Risk Management). Aiming to simultaneously secure both capital adequacy and efficiency of capital use, the Integrated Risk Management seeks to comply with risk limits set based on risk capital allocated within the financial strength and pursues maximum risk-return.

\* Value at Risk (VaR): Risk amount measurement indicator. The maximum amount of loss anticipated within a certain period (the holding period) within the range of certain probability (the confidence interval). SuMi TRUST Holdings is applying a measurement with a confidence interval of 99%.

### • Risk Management Structure

