This section outlines matters to be stated in explanatory documents relating to the fiscal year separately stipulated by the Director-General of the Financial Services Agency (Notification No. 15 of Financial Services Agency, March 23, 2007) with regard to the status of capital adequacy as set forth in Article 19-2, Paragraph 1, Item 5-(d) of the Enforcement Regulations of the Banking Act (Ministry of Finance Ordinance No. 10, 1982), as well as the matters regarding compensation separately stipulated by the Director-General of the Financial Services Agency (Notification No. 21 of Financial Services Agency, March 29, 2012) as having significant consequences on the business operation or asset status of a bank, a bank holding company, or their subsidiaries, according to Article 19-2, Paragraph 1, Item 6, Article 19-3, Item 4 and Article 34-26, Paragraph 1, Item 5 of the Enforcement Regulations of the Banking Act (Ministry of Finance Ordinance No. 10, 1982).

The following disclosure is with respect to Sumitomo Mitsui Trust Bank, Limited as of the end of March 2015.

Capital Adequacy Ratio Qualitative Disclosure Data:

Sumitomo Mitsui Trust Bank, Limited ("SuMi TRUST Bank")

Compensation Disclosure Data:

Sumitomo Mitsui Trust Bank, Limited ("SuMi TRUST Bank")

Capital Adequacy Ratio Qualitative Disclosure Data:

Sumitomo Mitsui Trust Bank, Limited

1. Overview of Risk Management

(1) Basic Policies on Risk Management and Risk Categories

In accordance with the Risk Management Policy formulated by SuMi TRUST Holdings along with our management policy and the basic policy on internal control, the Board of Directors at SuMi TRUST Bank has established Risk Management Rules, which sets out SuMi TRUST Bank's basic rules for risk management, including the types of risk requiring attention, the techniques applied to hedge risk, and the structure and authority for risk control. Based on these rules, SuMi TRUST Bank defines the content of specific standards for risk management by each type of risk.

The types of risks defined by SuMi TRUST Bank for the above purpose include credit risk, market risk, funding risk and operational risk.

Credit risk is the risk of reduction or impairment of the value of assets (including off-balance sheet assets), owing to reasons such as deterioration in the financial condition of an obligor, that causes SuMi TRUST Bank to incur loss.

Market risk is the risk of loss caused by the changes in the value of assets or liabilities held by SuMi TRUST Bank (including those on off-balance basis) and/or the proceeds there from, due to fluctuations of various risk factors such as interest rates, foreign exchange rates, and stock prices.

Funding risk is the risk of loss resulting from a cash-flow crisis due to an inability to finance any necessary funds, or a tight funding environment that imposes an interest rate significantly higher than normal.

Operational risk refers to the risk of losses arising from inappropriate business processes, activities of executives or employees, computer systems as well as external incidents.

(2) Risk Management Structure

In accordance with the Risk Management Policy formulated by SuMi TRUST Holdings, SuMi TRUST Bank sets down the roles and responsibilities of operational organizations and departments related to risk management as follows:

1) The Board of Directors formulates policies for the identification, assessment, monitoring, control and reduction of risks. It also formulates management plans, including the risk capital allocation plan and the risk management plan, and disseminates the plans throughout the company. It also establishes a reporting structure and vests authority in relevant organizations.

2) The Executive Committee sets rules and provisions regarding the identification, assessment, monitoring, control and mitigation of risks in line with the policies set out by the Board of Directors, and develops frameworks to put them into practice.

• 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.

3) Front office departments engage in operational administration aimed at ensuring the effectiveness of risk management, such as implementing appropriate controls that reflect the scale and characteristics of risks based on the accurate recognition of risks, subject to Risk Management Rules and relevant risk management regulations, etc.

4) Risk management-related departments are responsible for developing and running the risk management process for identification, assessment, monitoring control and reduction of risks they are supposed to manage. Furthermore, in order to fulfill their check-and-balance functions over the front office departments these departments engage in the planning and promotion of the risk management system including reporting to senior management on a regular basis or as appropriate, based on the monitoring of risk status and risk management activities at front office departments.

(3) Comprehensive Risk Management and Integrated Risk Management

SuMi TRUST Bank comprehensively measures the risks it faces after assessments thereof by risk category. It manages risks by comparing them with SuMi TRUST Bank's financial strength (Comprehensive Risk Management).

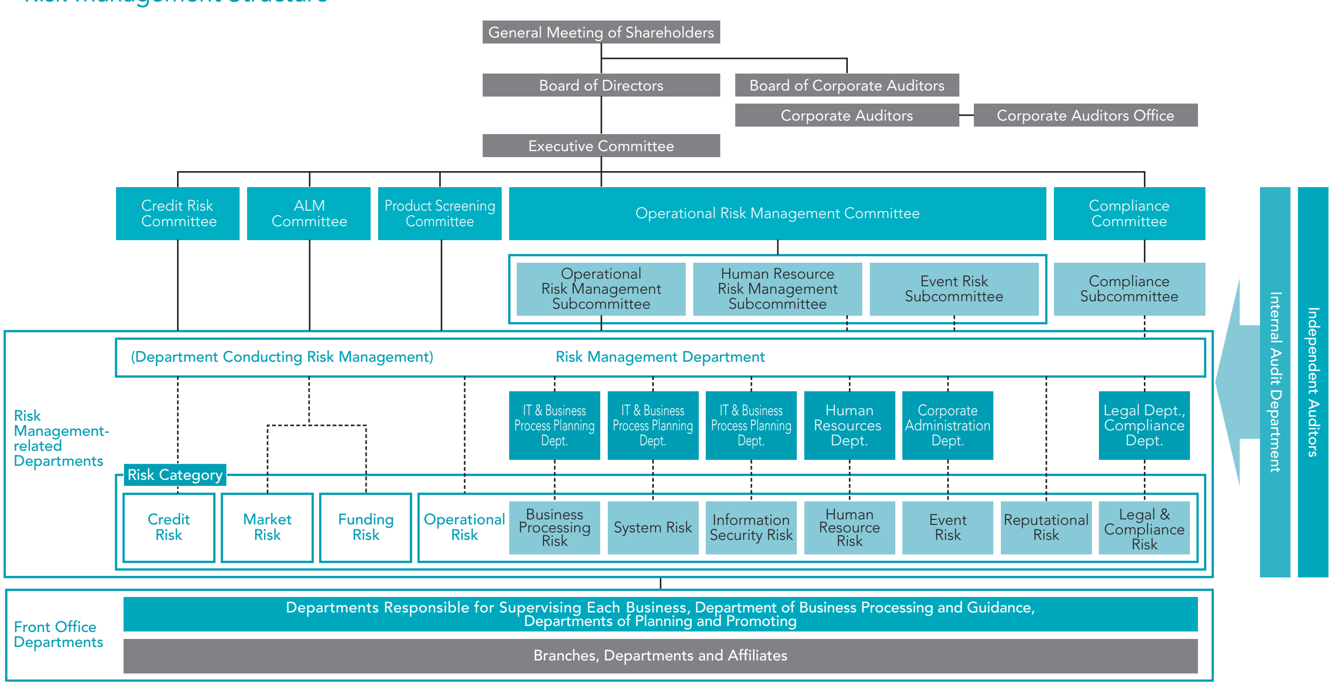
In addition, among the risks subject to Comprehensive Risk Management, SuMi TRUST Bank aggregates risks which are quantifiable with unified criteria such as the integrated VaR, and manages these risks by comparing them with SuMi TRUST Bank's financial strength, which is indicated by its capital buffer (Integrated Risk Management).

2. Credit Risk Management

Credit risk refers to the risk that the SuMi TRUST 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 SuMi TRUST Group incurs losses on credit provided overseas, due to foreign exchange, political and economic conditions of the country of the obligor. Credit risk is the most basic risk involved in the "credit creation function" —the basic function of finance.

The Japanese economy is generally in a recovery trend, while the U.S. economy is keeping up a steady pace. However, interest rates remain at exceptionally low levels, and the financial markets are experiencing the impact of deteriorating national finances in emerging economies and

• Risk Management Structure



resource-rich countries. In addition, there are toughened international financial regulations including ones pertaining to credit concentration risk. We are building a more advanced credit risk management system in light of this economic environment and the regulatory trend surrounding us.

At the same time, we are also proactively working to serve new healthy demand for funds, to achieve a diversified credit portfolio and stronger client base.

Initiatives for clients' business improvement related to financial facilitation are also important from the viewpoint of credit risk management. Therefore, we are working to develop systems to handle them appropriately.

(1) Credit Risk Management Policy

The basic policy of SuMi TRUST Bank's risk management calls for "a diversified credit portfolio" and "strict credit management for individual credits." For the former, we are making efforts to mitigate credit concentration risk by managing, on a sector-by-sector and country-by-country basis, the diversification of the overall credit portfolio, including large borrowers. For the latter, we are managing individual credits in a more elaborate manner through the operation of credit screening, self-assessment and internal Credit Ratings.

Furthermore, we have set a standard for profitability by taking into account expected loss ratios and expense rates for each credit rating, and reflect the results of this measurement in the terms and conditions of each transaction in a bid to secure profit margins (spreads) commensurate with their risk amount to "ensure appropriate risk-return."

SuMi TRUST Bank's credit risk management covers not only credit transactions in the banking account but also transactions in the principal guaranteed trust account.

(2) Credit Risk Management Structure

We have established a credit risk management framework under which various organizations and departments are closely organized for mutual support and effective checks and balances. Relevant organizations and departments assume their respective roles based on the credit strategies and credit risk management plans formulated by the Board of Directors as follows:

1) The Board of Directors decides on important matters related to credit risk management when establishing semi-annual management plans. Based on reports on credit risk management (including the results of asset assessment), the Board of Directors decides on the credit strategy and economic capital plan, and its approval of self-assessment standards and rules for write-offs and reserves, through these decisions, it strengthens and improves the fund management base, and ensures the effective use of funds and the soundness of assets, including assets in trust.

2) The Executive Committee, based on the reports of credit risk management (including the results of asset assessment), deliberates and decides on the credit strategy and the risk capital allocation plan, and brings them to the Board of Directors. Also, the Committee develops and reviews the framework to carry out self-assessment and the calculation of write-offs and reserves in an appropriate manner.

3) The Credit Risk Committee deliberates and decides on basic credit policies as well as investment and loan transactions, and secures the strengthening and improvement of the fund management base, the effective use of funds and the soundness of assets, including assets in trust.

4) The Risk Management Department designs and facilitates the management of credit risk in a proper manner as a risk management-related department pertaining to credit risk. Also, it undertakes credit risk management through the measurement of credit risk amounts, the monitoring of credit portfolios and validation of the appropriateness of self-assessment, write-offs and reserves, and verifies the appropriateness of the internal ratings system.

5) The Research Department applies Credit Ratings based on industry research and research on credit evaluation of individual companies along with quantitative analysis, from a neutral standpoint independent of global credit supervision departments, branches and departments.

6) Each Global Credit Supervision Department screens credit transactions strictly, provides appropriate guidance to branches and departments, and conduct self-assessment (secondary assessment), and deal with problematic loans.

7) Branches and Departments manage credit transactions appropriately and conduct self-assessment (initial assessment).

8) The Internal Audit Department conducts the internal audit of internal risk management frameworks for various processes.

(3) Credit Risk Management Methods

1) Credit Concentration Risk Management

Based on the idea that keeping close tabs on credit exposure to each obligor as the basics of credit risk management, we manage loans, stocks, off-balance sheet and other transactions in a comprehensive and integrated manner. We place limits on credit exposures thus calculated and known, and also periodically examine the impact of credit risk realization of large obligors and the particular degree of concentration in industry sectors with large credit exposures, and we report these to the Executive Committee on a quarterly basis.

To manage country risks, we control exposures for each country in which obligors operate.

2) Credit Ratings and Self-assessment

"Credit Ratings" that indicate the credit status of obligors and the possibility of defaults and losses provide the basis for credit screening of individual transactions and credit portfolio management. Credit Ratings include: Obligor Ratings for corporations that comprise sovereigns and financial institutions; Structured Ratings applicable to structured finance such as real estate non-recourse loans; and Facility Ratings that reflect the possibility of loss of individual facilities.

Obligor Ratings use a method that combines a statistical quantitative model and qualitative assessment that reflects the characteristics of individual obligors, providing stage assessment in respect of the credit status of obligors and the likelihood of them defaulting. Structured Ratings indicate in stages the credit status of obligors and the likelihood of them defaulting. Evaluations are based on the quantitative and qualitative criteria according to the type of finance such as real estate non-recourse loans, project finance and ship/aircraft finance. Facility Ratings indicate in stages the possibility of loss, according to evaluations based on the case-specific credit quality (guarantee, collateral, etc.). These Credit Ratings also serve as the basis for credit risk calculations using the Internal Ratings-based Approach (the "IRB Approach") based on capital adequacy regulations.

We conduct self-assessment basically for all assets in the banking account and the principal guaranteed trust account on a regular basis, and determine the "classification of obligors" by assessing client's repayment capacity by their financial standing, cash positions, profit earning capacity, etc., as well as the "asset classification" according to the risk of assets becoming irrecoverable or impaired in their value, in order to achieve effective credit risk management and adequate write-offs and reserves.

The credit rating systems and the self-assessment system are administered in a mutually consistent manner, sharing client' basic financial data. Soundness of credit portfolios is accurately evaluated based on the timely and proper grasp of the clients' creditworthiness through the administration of both systems.

• **Comparative Table of Credit Ratings and Self-assessment**

Credit Ratings Structured Ratings	Self-assessment: Classification of obligors	Self-assessment: Categories
1	Normal	Not categorized (not II, III or IV)
2		
3		
4		
5		
6		
7	Requiring careful monitoring	II
8	3-month delinquent/restructured	Default
9	At risk of bankruptcy	III
10	Legally bankrupt and virtually bankrupt	IV

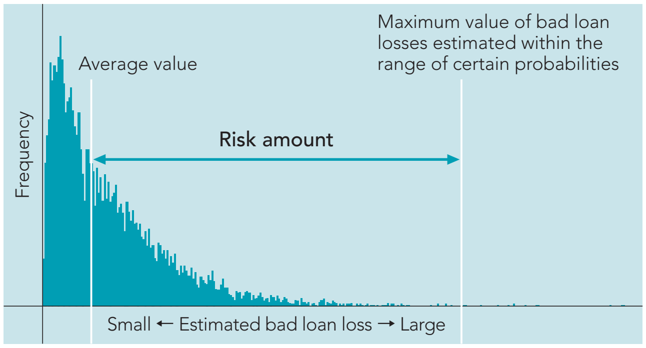
(Note) Obligor Ratings and Structured Ratings can be further adjusted, where necessary, through the addition of [+] or [-] symbols.

3) Credit Risk Quantification

The measurement of credit risk amount is designed to quantitatively grasp the extent as to how far the company's assets are likely to incur losses from credit events over the coming year. In particular, based on estimates of default rates in each grade of credit rating and recovery rates, we measure the difference between the maximum value of bad loan losses estimated within the range of certain probabilities and the expected bad loan loss, which is the average value of estimated bad loan losses, as the credit risk amount. The measurement results are reported regularly to the Board of Directors, etc.

As our risk measurement method, we have adopted Monte Carlo simulation, which generates a variety of scenarios (100,000 in our case) to plot a distribution of losses from which the maximum value of losses is estimated (See the chart below).

• Risk Amount

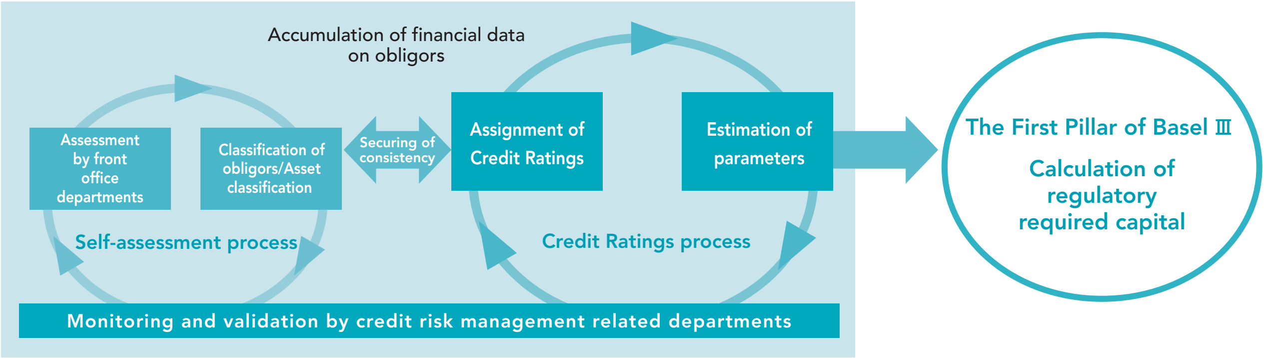


In the actual measurement, as our method is designed to factor in the correlation between individual assets, the risk amount derived reflects not only the quality of assets, but also the effects of diversification or credit portfolios. Therefore, by regularly monitoring the risk amount, we can ascertain the status of our credit risk management policy, i.e., "a diversified credit portfolio" and "strict credit management for individual credits." We also check the appropriateness of capital allocation and the soundness of business operations.

Usually, the measurement of risk amount is conducted using estimated values calculated based on default rates and recovery rates, etc. As a complementary measure, we also conduct "stress testing," intended to estimate the maximum possible losses that may arise from a situation that represents an aberration from historical data but could theoretically occur. We set out multiple stress scenarios and conduct simulations to see how the risk amount changes in each of these scenarios. The results of these tests are reported to the Board of Directors, etc.

We are also working on risk calculation techniques and the creation of more sophisticated stress scenarios, corresponding to the characteristics of SuMi TRUST Bank's asset under out management.

• Basic Process of the IRB Approach



(4) Compliance with Capital Adequacy Regulations

1) Measurement of Required Capital via the IRB Approach

As a method for calculating the amount of credit risk-weighted assets related to the calculation of the required capital under capital adequacy regulations, we have adopted the IRB Approach, which uses Credit Ratings and other internal data for the management of obligors.

In terms of calculation method, we adopted the Advanced IRB Approach at the end of March 2015, which is primarily applicable to domestic corporations and others.

1. Basic Process of the IRB Approach

Under the IRB Approach, the amount of regulatory required capital is calculated via the following three stages:

(a) Assignment of Credit Ratings (Credit Ratings and Credit Pool Categories)

SuMi TRUST Bank develops its own ratings system (Internal Ratings Management)* in accordance with its risk profiles, and based on this system, SuMi TRUST Bank assigns ratings to obligors. Credit Ratings ensure consistency with the results of self-assessment, and the accuracy of Credit Ratings is secured with credit risk management related departments validating the internal rating system and rating grades assigned to individual obligors.

* For details of our Credit Ratings system, please refer to "3. Internal Ratings System" on page 331.

(b) Estimation of Parameters

Estimation of some parameters (input variables) necessary for risk measurement is implemented by collecting the actual results (performance data) of credit extended to individual credit transactions on the basis of ratings assigned under (a).

(c) Calculation of Minimum Required Capital

The minimum required capital is calculated by applying the result of (b) above to the calculating formula based on the notification issued by the Financial Services Agency.

• Calculation Methods and Credit Ratings Applied to Respective Exposures

Approach	Asset Classification		Sub-category	Applicable Calculation Approaches*	Applicable Credit Ratings
Internal Ratings-based Approach	Corporate Exposure	Corporate Exposure	—	Supervisory Formula	Obligor Ratings, Facility Ratings
		Specialized Lending	Real estate non-recourse loan, Project finance, Commodity finance, Object finance	Supervisory Slotting Criteria Approach	Structured Ratings
		Sovereign Exposure	—	Supervisory Formula	Obligor Ratings, Facility Ratings
		Bank Exposure	—	Supervisory Formula	Obligor Ratings, Facility Ratings
	Retail Exposure		Residential mortgage exposures	Supervisory Formula	Credit Pools
			Qualifying revolving retail exposures	Supervisory Formula	Credit Pools
			Other retail exposures	Supervisory Formula	Credit Pools
	Purchased Receivables		Regulatory formula for underlying assets	Supervisory Formula	Obligor Ratings, Facility Ratings
			Slotting criteria approach for underlying assets	Supervisory Slotting Criteria Approach	Structured Ratings
			Cases where classification is not possible due to multiple underlying assets	Top-down Approach	Credit Pools
	Equities, etc.		Domestic listed equities, equities of domestic unlisted obligors	PD/LGD Approach	Obligor Ratings
			Equities of domestic unlisted firms with no credit exposure, foreign equities	Simplified Approach	—

* Supervisory Formula & PD/LGD Approach: Formulas prescribed in the Notification (by the Financial Services Agency) are used.
Supervisory Slotting Criteria Approach: An approach to calculate credit risk by mapping internal Credit Ratings to the five supervisory categories, each of which is associated with a specific risk-weight.
Simplified Approach: An approach that uses predetermined risk-weights.
Top-Down Approach: An approach that regards purchased assets as an aggregate and uses formulas prescribed in the Notification (by the Financial Services Agency).

Notes:
1. We use the external ratings-based approach and the supervisory formula. For details, please refer to page 341, "7. (I) Securitization Exposures."
2. For "funds," we apply calculation methods that are appropriate for respective underlying assets.

2. Approaches Applicable to Respective Exposures

Under capital adequacy regulations, methods of calculating risk-weights and Credit Ratings used are varied depending on asset classes. Please refer to the table on page 329 for the breakdown of calculation methods and Credit Ratings we apply to respective exposures:

3. Estimated Parameters

As described below, there are three parameters which must be estimated in order to calculate the amount of credit risk-weighted assets. Exposures with higher levels of parameters have higher required capital. In order to ensure objectivity and accuracy, we use, in principle, the same parameters used for internal risk management purposes for capital adequacy regulations as well.

(a) Probability of Default (PD)

The prior probability that a single obligor or a single transaction is likely to default during a specified period.

(b) Loss Given Default (LGD)

The prior estimate of the ratio of a loss likely to be incurred in the event of a default by a certain obligor or a certain transaction to the exposure at default.

(c) Exposure At Default (EAD)

The likely exposure amount at the time of occurrence of events of default, including additional credit that may be drawn from lines of credit or other financing, before a client defaults on obligations.

4. PD • LGD Estimation Method

In our integrated risk management, we estimate PD, LGD and EAD, and we use these estimates as parameters for the IRB Approach under capital adequacy regulations.

For Domestic Credit Ratings, we estimate PD in line with the definition of default, which equates with the Basel II definition, on the basis of our performance data (the "internal historical data method"). For international credit ratings, we estimate PD on the basis of mapping with default data provided by Standard & Poor's Ratings Services (the "mapping method"). In principle, we estimate PD for Credit Ratings on the basis of the cumulative default rate from the internal historical data for the latest 20 years and by taking into account applicable external data. For transactions subject to credit pool management that do not have the ratings migration, we estimate PD, in principle, by using the average of the actual default rates for the latest 20 years. Where the period of accumulation of performance data has yet to reach 20 years, we estimate PD on the basis of the actual default rates of all years for which the performance data is available.

LGD (SuMi TRUST Bank's own estimation applicable primarily to domestic corporations and others) is estimated subject to conservative adjustments that take into consideration potential recessionary phases and other factors, based on the actual recovery data from the defaulted clients.

5. Usage of Various Estimates for Purposes other than Calculation of Capital Adequacy Ratio

Our estimates used for calculating the capital adequacy ratio complying with capital adequacy regulations are applied for the following items:

(a) Use of Estimated Typical PD* and Typical LGD*

Quantitative measurement of credit risk, controls of credit limits, etc.

* The typical PD and LGD are conservatively estimated to obtain a long-term and stable level by taking into consideration the impact of economic cycles.

(b) Use of Credit Ratings

Criteria for authority on credit-related operations, criteria for self-assessment, criteria for profitability, etc.

2) Exposures where the Standardized Approach is Applied

The Standardized Approach calculates risk-weighted assets by using external ratings provided by qualified rating agencies, instead of our own Credit Ratings. We have adopted the IRB Approach. We, however, use the Standardized Approach for business units and transactions excluded from the scope of application of the IRB Approach due to its insignificance and other factors.

We use ratings provided by the following qualified rating agencies to assess risk-weights' Rating and Investment Information, Inc. (R&I); Japan Credit Rating Agency, Ltd.(JCR); Moody's Investors Service, Inc. (Moody's); Standard &Poor's Rating Services (S&P); and Fitch Ratings Ltd. (Fitch).

1. "Phased Roll-out" Exposures

We apply the Standardized Approach to our subsidiaries (business units) that are in the middle of preparatory work toward the application of the IRB Approach. However, as of the end of March 2015, there were no subsidiaries subject to our "phased rollout" exposures.

2. "Carved Out" Exposures

We apply the Standardized Approach to subsidiaries that undertake little credit business, if any, as well as certain transactions that are not significant in terms of credit risk management, carving them out from the IRB Approach. Criteria whether to carve out business units or transactions from the IRB Approach are made after fully considering their importance with respect to the following points:

(a) The size of the expected credit loss and the frequency of credit provision

(b) Rank under the credit portfolio plan or the credit risk management policy

(c) The ratio to overall credit risk-weighted assets

3. Internal Ratings System

(1) Outline of the Internal Ratings System

SuMi TRUST Bank's internal ratings system is intended to ensure an appropriate evaluation process for financial assets held by the SuMi TRUST Group (excluding insignificant consolidated companies), and contribute to profit management and credit risk management in accordance with the Risk Management Policy. The internal ratings system consists of the Credit Ratings system and credit pools system.

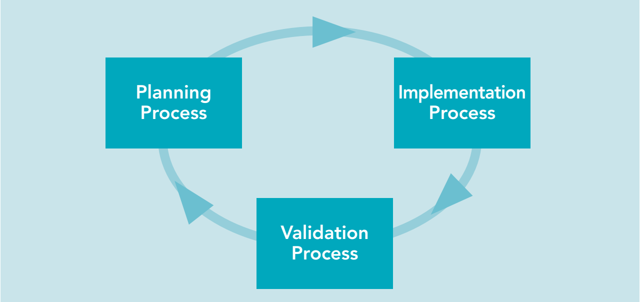
The Credit Ratings system is broadly divided into the domestic ratings system ("Domestic Credit Ratings") and the overseas ratings system ("Non-Japanese Credit Ratings"). Each system includes Obligor Ratings that rank the PD of corporations, Structured Ratings that rank the PD of real estate non-recourse loans and project finance, and Facility Ratings that rank the possibility of loss in individual facilities in consideration of factors such as guarantees, collateral and duration of credit.

The credit pools system manages small-lot loans provided to individuals, such as residential mortgage loans and card loans, by grouping these transactions with similar risk profiles. SuMi TRUST Bank maintains credit pool categories, such as affiliate-guaranteed residential mortgage loans pools and business finance loans pools, divided according to product type, obligor status, transaction status, collateral coverage status and delinquency status.

(2) Administration of the Internal Ratings System

The process related to credit rating assignment comprises the "Planning Process" for defining ratings and setting procedures and criteria ("Policy on Credit Ratings"), the "Implementation Process" for appropriately applying the Credit Ratings and credit pools assignment criteria, and the "Validation Process" for ensuring the suitability and objectivity of Credit Ratings.

• Administration Process of Credit Ratings



1) Planning Process

The planning process is the procedure to establish credit rating assignment criteria, credit pool categories and credit rating model* to secure the objectivity of the internal rating management, for which credit risk management related departments are responsible.

* Our credit rating model is a tool we have developed on our own to allocate the rating grade that corresponds statistically to the probability of default (PD) by using the financial data of obligors.

2) Implementation Process

In the implementation process, the credit rating assignment and assignment of credit pools are undertaken in accordance with the criteria prescribed in the planning process. Credit rating assignments and credit pool assignments are the responsibility of the Research Department or the business department in charge as the "implementation department." The procedure of credit rating assignment consists of a new assignment, regular review and monthly review, and the rating system is run in a way where Credit Ratings are reviewed in a timely manner in response to changes in the creditworthiness of obligors.

Furthermore, we assign Credit Ratings to clients in a combination of "quantitative assessment" and "qualitative assessment." "Quantitative assessment" is an assessment based on our credit rating model and mapping with external ratings, while "qualitative assessment" is an assessment based on human judgments ("expert judgment"). As we take the approach to determine Credit Ratings by combining "quantitative assessment" and "qualitative assessment," the monitoring of the objectivity of "qualitative assessment" made by expert judgment ultimately becomes important in ensuring the suitability of ratings.

In SuMi TRUST Bank, throughout the implementation process, credit risk management related departments are monitoring the proper implementation of Credit Ratings in accordance with criteria set by the implementation department. Through the monitoring function of the implementation process, credit risk management related departments ensure the soundness of the entire process, including the appropriateness of the objectivity of expert judgment.

• Implementation Process of Credit Ratings

3) Validation Process

Credit risk management related departments, as "Validation Departments," carry out validation work once a year in order to ensure the accuracy and adequacy of results of the Credit Ratings model.

In the validation process, implementation departments provide data for validation, while validation departments undertake validation of the following items:

1) Credit rating results—suitability validation
2) Credit rating assignment criteria—objectivity validation
3) Credit pool classification—suitability validation
4) Parameters applied to Credit Ratings and credit pool—suitability validation

(3) Procedures for Ratings Assignment under the Internal Ratings Systems

1) Procedures for Assigning Domestic Credit Ratings (Obligor Ratings)

1. Subjects to be Rated

We assign Credit Ratings to all domestic corporate obligors (residents and nonresident Japanese).

2. Quantitative Assessment

In Domestic Credit Ratings, we use the credit rating model under which obligors' financial indicators are explanatory variables, and the typical PD is the explained variable. In building our Credit Ratings model, we have classified our obligors into five industry categories of manufacturing, wholesale/retail, services (including nonbanks), transportation/communications and construction/real estate in order to reflect financial characteristics of each industry sector in the assessment, and adopted statistical methods to choose financial indicators with a high correlation to the PD. Also, for financial data employed to build the model and to assess individual obligors by using the model, we use information such as unrealized losses collected and analyzed by branches and departments in addition to public financial statements, thus enabling the quantitative assessment that reflects the actual condition of obligors.

3. Qualitative Assessment

The analysts in the implementation departments responsible for assigning sector-by-sector Credit Ratings assess "keiretsu" corporate groupings, industry circumstances, external ratings, future cash flow stability and other information that is not reflected in financial indicators (expert judgment).

For expert judgment, the margin of modification is limited, and qualitative assessment items are indicated in writing in order to contain the arbitrariness of those employees responsible for the assignment of Credit Ratings. Furthermore, departments which manage credit risk supervise the content of revisions to ensure objectivity.

2) Procedure for Assigning International Credit Ratings (Obligor Ratings)

1. Subjects to be Rated

We assign Credit Ratings to all overseas obligors (non-residents and non-Japanese).

2. Quantitative Assessment

Given the limited availability of data compared to Domestic Credit Ratings, Non-Japanese Credit Ratings look to external ratings (Moody's and S&P) as main judgment factors (for base ratings and quantitative assessment ratings). When there are external ratings, in principle, issuer ratings are regarded as "Base Ratings" and as main judgment factors. When there are multiple external ratings, whichever is lower is used as the standard rating, in principle.

When there are no external ratings, we compare other companies in the same industry (in principle, multiple companies are selected from the same industry in the same country), or ratings based on the "Credit Statistics" published by rating agencies, and determine the "quantitative assessment ratings" as a prime factor for rating. Through this procedure, we secure the consistency of credit assessment criteria between obligors with external ratings and obligors without external ratings.

3. Qualitative Assessment

The qualitative assessment ratings by expert judgment are determined on the basis of qualitative assessment criteria for Domestic Credit Ratings and also by incorporating assessment factors not used in Japan, and limits are imposed on the margin of modification for each item of assessment. Furthermore, departments which manage credit risk supervise the content of revisions to ensure objectivity.

3) Procedure for Assigning Structured Ratings

1. Subjects to be Rated

Structured Ratings are assigned to structured finance projects with the cash flows generated from specific financed assets or businesses as the source of principal and interest payments.

2. Quantitative Assessment

Two indicators are used for the quantitative assessment of Structured Ratings, for example in terms of real estate non-recourse loans: (i) the loan to value (LTV), which is the ratio of the amount of loans taken out or bonds issued to the appraised value of the subject asset; and (ii) the debt service coverage ratio (DSCR), which is the ratio of net cash flow to the amount of interest on loans or bonds plus contracted principal payments. By combining these two indicators, we assess default risk during a given period and the certainty of redemptions by the sale of subject property at maturity and/or refinancing.

In addition, we assess the DSCR conservatively in anticipation of changes in the environment during a given period.

3. Qualitative Assessment

In a real estate non-recourse loan, for example, in cases such as when a highly creditworthy tenant has undertaken a long-term lease contract, the assessment by expert judgment, in some cases, adjusts the rating level by taking these factors into consideration.

Since Structured Ratings are strongly individualized depending on specific transactions, we ensure the objectivity of ratings assigned by monitoring the adequacy of qualitative assessment at credit risk management related departments.

4) Procedure for Assigning Facility Ratings

1. Subjects to be Rated

We assign Facility Ratings to loans (including acceptances and guarantees, as well as commitment lines) to corporations, sovereigns and financial institutions subject to Domestic Credit Ratings (obligor ratings).

2. Assessment Method

Facility Ratings provide ratings that rank the possibility of loss in individual facilities based on factors such as guarantees, collateral and duration of credit.

5) Procedures for Assignment of Credit Pool Categories

1. Transactions Subject to Credit Pool Categorization

A credit pool is a group of transactions with similar risk profiles with regard to risks relating to the obligors as well as the transactions. In principle, SuMi TRUST Bank applies the credit pool management approach to small-lot loans provided to individuals, etc. However, business finance loans to individuals with an outstanding balance of ¥100 million or higher, are assigned Obligor Ratings and managed individually.

2. Assignment of Credit Pool Categories

Regarding credit subject to the credit pool management approach, loans are divided into several categories according to several categories according to product type, obligor status, transaction status, collateral coverage status and delinquency status. The loans are divided into three subcategories' "residential mortgage exposure," "qualifying revolving retail exposure" and "other retail exposures."

Assignment into credit pool categories is carried out by the implementation departments based on product type, transaction status and other factors.

4. Market Risk Management

Market risk refers to the risk that the SuMi TRUST 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 SuMi TRUST 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.

We are building a more advanced market risk management system, after considering the impact on markets of fluctuations of such factors as interest rates and foreign exchange rates following the monetary easing by the Bank of Japan.

(1) Market Risk Management Policy

In managing market risk, we aim to ensure adequate profits commensurate with the strategic targets, scale and characteristics of the business of the SuMi TRUST Group. We are doing this by improving the management system, along with ensuring its operational soundness by adequate control over risks.

(2) Market Risk Management Framework

1) The Board of Directors approves and determines the ALM* Basic Plan and a risk management plan as important matters related to market risk and liquidity risk under management plans on a semiannual basis.

2) The Executive Committee deliberates and decides on a semiannual basis the ALM Basic Plan and a risk management plan referred by the ALM Committee. In addition, based on reports on the status of market risk management, the Executive Committee implements measures to develop and improve the framework for facilitating control functions.

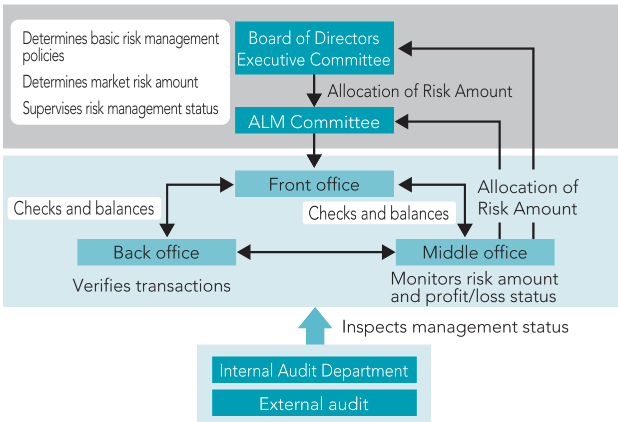
3) The ALM Committee plans on a semiannual basis the ALM Basic Plan on a company-wide comprehensive risk operational management basis for assets/liabilities as well as a risk management plan related to market and liquidity risk. The ALM Committee is held on a monthly basis and controls market and funding risks on a consolidated basis, and strives to ensure the soundness of the composition of assets and liabilities as well as stability of earnings.

4) As a middle office independent from departments responsible for market trading (front office) and departments responsible for business processing (back office), the Corporate Risk Management Department is in a position to ensure proper control functions among the front and back offices.

5) The Internal Audit Department conducts internal auditing of the adequacy and effectiveness of the risk management framework.

* ALM: Asset-Liability Management, designed to manage cash flows, liquidity, foreign exchange risk, interest rate risk, etc. by grasping the attributes of maturities and interest rates from assets and liabilities.

• Market Risk/Funding Risk Management Framework



(3) Market Risk Management Methods

We grasp the market risks within the SuMi TRUST Group and establish the risk limits and loss limits at each principal company according to the ALM Basic Plan. Status of adherence to the aforementioned limits is reported to the members of the ALM Committee on a daily basis. Reports are presented on a regular basis mainly to the Board of Directors as well as the ALM Committee. The reports related to compound risk analyses including grasping the sensitivity to risk factors by position, management of precursors of volatility in risk factors and emergency preparedness using stress tests, all as part of a multi-faceted risk management process combining qualitative and quantitative aspects.

(4) Market Risk Measurement Model

Market risk is quantified using VaR as a measurement standard, with confidence interval and holding period defined as follows:

Confidence interval:
 99%
Holding period:

Trading:	10 days
Banking	
ALM-related positions:	63 days (3 months)
Credit investment and strategic investment:	260 days (1 year)
Others:	21 days (1 month)

Furthermore, we are conducting stress tests in order to complement the limited effectiveness of the VaR measurement, which is affected by market fluctuations in the past observation period. Amounts of expected loss from the current portfolio are regularly estimated, assuming scenarios based on the past maximum fluctuation as well as forecasted future movement of each risk factor.

(5) Compliance with Capital Adequacy Regulations

1) Calculation of Market Risk Equivalent

The market risk equivalent refers to the sum of market risk in the trading account and foreign exchange risk and commodities risk in accounts other than the trading account, which is a factor used to calculate capital adequacy ratio. We calculate the market risk equivalent mainly by applying the Internal Models Approach*.

* We apply the Standardized Approach concerning individual risks at the parent company and exchange rate risks at consolidated subsidiaries.

We validate the reliability and effectiveness of the internal model by conducting back testing.

2) Outlier Ratio

Regarding the amount of interest rate risk for the banking account under the current capital adequacy regulations, when economic value calculated*1 under a certain interest rate fluctuation scenario*2 declines by more than 20% of total capital (Tier 1 capital + Tier 2 capital), a bank falls under the category of "outlier banks," and remedial actions to improve its stability will be made. The outlier ratio is obtained by dividing the overall amount of interest rate risk by total capital. As indicated by the table on page 388, our outlier ratio (on a consolidated basis) was 2.9% as of March 31, 2015, keeping us out of the category of outlier banks. The amount of interest rate risk in the banking account, the amount of interest rate risk for internal management purposes and the overall amount of interest rate risk used for calculating the outlier ratio are not necessarily the same because of differences in the measurement method, calculation conditions and other matters.

*1 Our risk measurement method uses the interest rate sensitivity approach. Core deposits are defined as the lowest of the following three, as an upper limit, for the five-year maturity (the average term of 2.5 years): 1) the lowest balance of deposits in the past five years; 2) the balance left after deducting the maximum annual outflow of deposits in the past five years from the current balance of deposits; or 3) the amount equivalent to 50% of the current balance of deposits.

*2 Our interest rate fluctuation scenario assumes an interest rate shock consisting of the 1st and 99th percentile of the fluctuation of interest rates measured for the one year holding period and the minimum observation period of five years for the Japanese yen, U.S. dollar and Euro.
Regarding currencies which account for less than 5% of our overall assets or liabilities, we uniformly use a parallel shift of 200 basis points upward or downward as an interest rate fluctuation scenario.

5. Funding Risk Management

Funding risk refers to the risk that the SuMi TRUST 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.

We are building a more advanced funding risk management system, after considering the needs for increased foreign currency funding associated with overseas business expansion and the compliance with new global standards (e.g. Basel Ⅲ) in terms of banks' capital adequacy and liquidity.

(1) Funding Risk Management Policy

As a basic principle, SuMi TRUST Bank adequately manages funding risks based on a policy that seeks a balance between two pillars: the cost and constant availability of funding through diversified sources of financing, and preparedness for emergencies through verification of funding capabilities under a stress environment and the prior review of countermeasures. Our balancing of these two pillars is with full recognition that such risks, in the event they materialized, could directly lead to the collapse of the SuMi TRUST Group.

(2) Funding Risk Management Framework

Funding risks are managed under a similar framework as the aforementioned market risk management framework.

(3) Funding Risk Management Methods

As criteria for funding risk management, risk limits on a company-wide basis and by business base, as well as by currency of denomination are set out, along with actions to be taken in the event of a breach of such limits, under the ALM Basic Plan, where status of adherence to such criteria is being monitored on a daily basis. Meanwhile, SuMi TRUST Bank identifies the amount of funds necessary in the event of materialization of funding risks. It achieves the identification of the amount of funds necessary by carrying out stress tests based on several scenarios such as abrupt changes in the market environment and changes in the funding environment specific to the SuMi TRUST Group. Furthermore, contingency plans have been developed to serve as crisis management measures. These cope with each status of funding based on the phases of the funding event that are predetermined depending on the funding tightness (on the levels of normal, symptomatic, alarming, and critical).

6. Operational Risk Management

Operational risk refers to the risk that the SuMi TRUST Group incurs losses resulting from inappropriate business processes, the activities of executives or employees and computer systems as well as from external events, and is classified into business processing risk, system risk, information security risk, legal and compliance risk, human resource risk, event risk and reputational risk for the purpose of risk management.

We will further enhance our operational risk management framework to remain prepared mainly for new risks that may emerge in association with the development in information technology.

(1) Operational Risk Management Policy

In developing an operational risk management system, we make it a principle to carry out adequate risk management in accordance with the scale and characteristics of businesses and risks involved, in an effort to ensure soundness and appropriateness of their businesses. This is based on the recognition that operational risk is something unavoidable in the course of business execution.

(2) Operational Risk Management Structure

1) The Board of Directors summarizes the matters to be addressed over the entire process of operational risk management along with specific actions, and it sets out the "Risk Management Plan (Operational Risk)," which is reviewed regularly or as necessary, on the basis of reports on the operational risk management situation.

2) The Executive Committee maintains the proper conditions for operational risk management, such as establishing the Operational Risk Management Committee and operational risk management-related departments including departments responsible for comprehensive management of operational risk and departments responsible for the management of respective risk subcategories.

3) In the Operational Risk Management Committee, the executive officers in charge of the operational risk management-related departments and the general managers of the departments responsible for supervising each business receive reports on operational risk information including significant losses associated with operational risk while engaging in deliberation and consultation on these matters as necessary.

4) The Risk Management Department, which has overall responsibility for operational risk management, is committed to developing and enhancing the SuMi TRUST Group-wide operational risk management system, in coordination with the departments responsible for managing the subcategory risks.

5) The departments responsible for managing the subcategory risks are committed to developing and enhancing the SuMi TRUST Group-wide risk management system in each respective subcategory.

6) The Internal Audit Department conducts internal audit of the adequacy and effectiveness of the risk management system.

(3) Operational Risk Management Methods

Operational risks involved in all areas of the SuMi TRUST Group's business, including outsourced business, are subject to operational risk management, which adequately identifies and assesses risk from both qualitative and quantitative perspectives. Meanwhile, preventative measures against risk materialization, as well as responses in the event of materialization, causal analysis and recurrence-prevention measures are formulated to mitigate operational risk.

Management regarding Operational Accidents

As a countermeasure against operational accidents, such as incidents in which SuMi TRUST Bank and/or its client(s) suffer loss as a result of inappropriate handling of business matters, SuMi TRUST Bank is improving its reporting and management systems for operational accidents, to ensure proper handling of accidents at the time of their occurrence, prevention and elimination thereof, as well as to improve the quality of business process.

In the event of an operational accident, a concerned/involved department registers the accident with a reporting system, whereby it shall promptly be reported to the departments responsible for the businesses and the risk management. Furthermore, depending on the significance of the accident, such as the scope of its impacts and the size of associated loss, the report shall further be escalated to the bodies such as the Operational Risk Management Subcommittee, Operational Risk Management Committee and the Executive Committee. Upon receiving instructions from the departments responsible for the businesses, the department involved in the accident shall provide a prompt and appropriate response to clients, while it investigates and analyzes the causes of its occurrence, as it considers, develops and implements the measures to prevent its reoccurrence.

For the purpose of periodical analysis, the departments responsible for the businesses analyze the trends and causes of operational accidents in their respective business, and develop measures to prevent reoccurrence as deemed effective across the entire business. The risk management-related departments develop and review measures to prevent reoccurrence as deemed effective from a company-wide and cross-departmental point of view.

(4) Business Processing Risk Management Activities

Business processing risk refers to the risk that the SuMi TRUST 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 accidents or fraud. Engaging in a broad range of businesses including banking, asset management, asset administration and real estate, SuMi TRUST Bank recognizes that business processing risk is something unavoidable in the course of business execution. SuMi TRUST Bank is processing risk management in accordance with the scale and characteristics of business operations and risk so as to ensure peace of mind and satisfaction for its clients.

The IT & Business Process Planning Department, which is responsible for comprehensive management of business processing risk, comprehensively reviews inter-business issues concerning business processing risk and business process streamlining, and develops a system for ensuring the effectiveness of SuMi TRUST Bank's business processing risk management from a company-wide viewpoint. Meanwhile, we have established a department to oversee and provide guidance to business processing operations at each business, which reviews policies set out in each business and provides guidance and training on general business processing to the head office departments and the business offices.

SuMi TRUST Bank developed a risk management plan that incorporated the goals for business processing risk management and it has implemented activities to mitigate business processing risk, including documentation of business processing, exhaustive checks for clerical errors and associated analysis, development of remedial measures and cautioning based on the macro analysis of clerical errors, outsourcing management, and self-inspection.

(5) System Risk Management Activities

System risk refers to the risk that the SuMi TRUST Group incurs losses due to such reasons as computer system failure, malfunctions and defects, as well as the risk that the SuMi TRUST Group incurs losses due to unauthorized use of a computer.

Since computer systems are vital for SuMi TRUST Bank to carry out its business operations, SuMi TRUST Bank recognizes that system risk is a serious risk with potential impacts on a wide range of clients, which may cause disrepute to SuMi TRUST Bank. Therefore, SuMi TRUST Bank is conducting adequate system risk management in accordance with the importance, nature and operational function of each system.

The IT & Business Process Planning Department, which is responsible for system risk management, strives to mitigate system risk, through measures to prevent system risk from materializing, adequate response and causal analysis of the risk when materialized, and development of measures for the prevention of reoccurrence.

SuMi TRUST Bank enhances the credibility of hardware and software as well as system operation, through measures including maintenance of hardware, securing of spare/alternate functions, back-up in place and preparation of manuals. Measures for ensuring security of the information system and preventing illegal access and use are also in place. Meanwhile, in order to minimize the impact of failure or disaster on the information system and to ensure early recovery and business continuity, we have in place a clarified communication and response system, manuals describing alternate measures and recovery procedures, along with the implementation of education and training on operations.

(6) Information Security Risk Management Activities

Information security risk refers to the risk that the SuMi TRUST 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 and misuse of information. Since the information asset is one of the critical management resources involving the risk that could disrupt the basis of management, SuMi TRUST Bank adequately maintains and manages all information assets under its care.

The IT & Business Process Planning Department, which is responsible for information security risk management, is committed to developing and enhancing an information security risk management system.

SuMi TRUST Bank places degrees of importance on all information assets under its care according to the severity of potential losses that SuMi TRUST Bank and clients may incur in the event of their leaks, loss or alteration. Methods and procedures for acquisition, use, management, safekeeping, internal communication, external use and disposal of information assets are set out according to the degrees of importance, for the effective implementation of security measures.

Meanwhile, we, as a business operator handling personal information, adequately manage personal information in compliance with the laws pertaining to the protection of personal information and guidelines set forth by government agencies, in addition to other standards. In addition, we have announced the "Declaration for the Protection of Personal Information" in an extensive effort to protect the personal information of our clients and shareholders.

SuMi TRUST Bank is providing education and information to raise awareness of the information security risk management on a company-wide basis. Furthermore, the adequacy and effectiveness of the personal information management system are verified and ensured through self-inspection and internal audits.

(7) Activities to Manage Other Operational Risks

For legal and compliance risk management, we carry out verification from a legal perspective, such as legal checks, regarding the consistency of internal rules as well as the legality and adequacy of transactions and operations.

For human resource risk management, we have built a risk management system including the provision of internal training courses, interviews and consulting contacts to deal with personnel and labor management issues, such as unequal or unfair treatment of personnel and harassment.

For event risk management, we maintain preparedness against the risk events that impair business, such as natural disasters, the spread of infectious diseases, fire, crimes and traffic accidents, by developing preventative measures including mitigation measures, disaster prevention, crime prevention and safe operation management. We have also built and deployed a business continuity management system.

For the management of reputational risk, SuMi TRUST Bank has built a system to prevent mass media reports, rumors or speculation that could compromise the reputation of SuMi TRUST Bank or its subsidiaries and to conduct public announcement as well as respond to clients in a prompt and appropriate manner in the event that such a reputational issue arises.

(8) Compliance with Capital Adequacy Requirements

1) Calculation of Operational Risk Equivalent Amount

Since the end of March 2014, SuMi TRUST Bank has adopted the Advanced Measurement Approach in lieu of the Standardized Approach, which was used previously, in the calculation of the operational risk equivalent amount under capital adequacy requirements.

Exceptionally, we adopt the Basic Indicator Approach or the Standardized Approach for a portion of the corporations deemed less important in the calculation of the operational risk equivalent amount and corporations that are in preparation for the adoption of the Advanced Measurement Approach.

2) Outline of the Advanced Measurement Approach

1. Measurement Framework

SuMi TRUST Bank calculates the operational risk equivalent amount by aggregating "each maximum loss amounts of operational risk expected over a period of one year, with a one-sided confidence interval of 99.9% (hereinafter "VaR")," for each of the eight quantification units (six businesses, corporate management sections and earthquakes) that are based on the consistency between management regarding operational accidents and profit management.

The operational risk equivalent amount is calculated using the four elements that are pre-requisites for the adoption of the Advanced Measurement Approach, i.e. internal loss data, external loss data, business environment and the internal control factors, and scenario analysis, as well as the quantification model. The results of the calculation are utilized in activities to enhance operational risk management, including the deliberation of measures to improve the internal control factors.

Additionally, in the calculation of the operational risk equivalent amount, we do not reflect the mitigating effects of insurance, and do not exclude expected loss or conduct adjustments based on the correlation between the quantification units.

- Internal Loss Data
  Information on losses associated with operational risk occurring within the SuMi TRUST Group
- External Loss Data
  Information on losses associated with operational risk gathered from outside of the SuMi TRUST Group
- Business Environment and Internal Control Factors
  Factors relating to the business environment and the internal control factors of the SuMi TRUST Group that will impact operational risk

- Scenario Analysis
  Estimation method of the amount and frequency of serious losses associated with operational risk based on expert knowledge, experience and information on operational risk

2. Scenario Analysis

In order to accurately understand SuMi TRUST Bank's risk profile, we identify events involving a large amount of losses associated with operational risk that cannot be covered by internal loss data alone when we conduct scenario analysis. We also construct scenario data that estimate loss amount and probability of such events.

The evaluation results of elements including the business environment and the internal control factors are reflected in the subjects to the construction of scenario data, and the estimation of loss amount and frequency.

In addition, we ensure the objectivity, accuracy and completeness of the constructed scenario data by conducting verification using both internal loss data and external loss data.

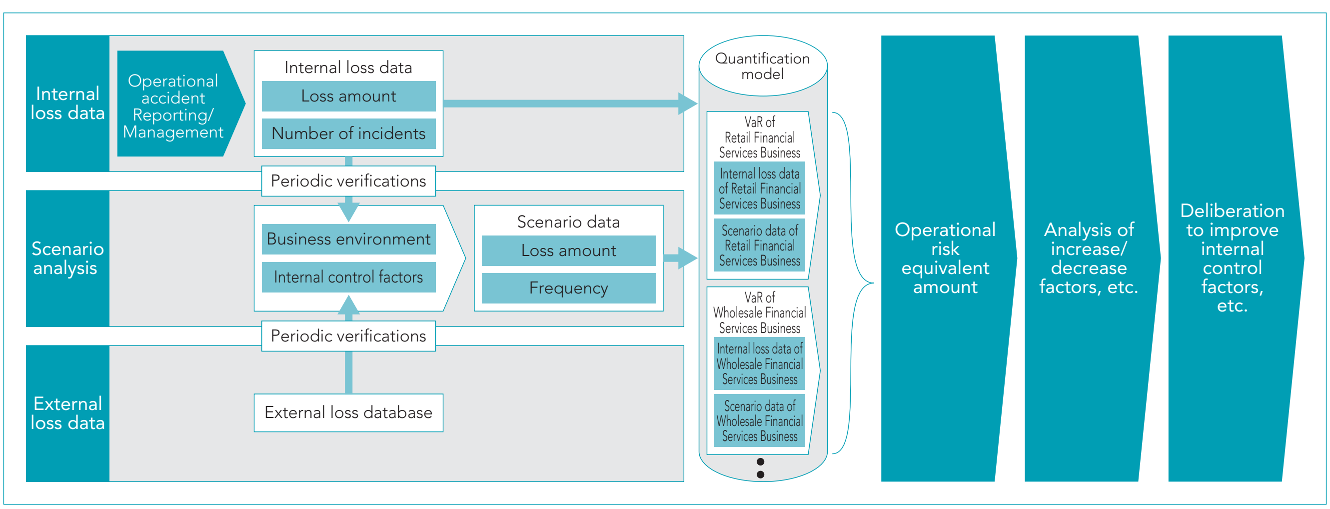
3. Quantification Model

The VaR of each measurement unit is calculated by plotting frequency distributions and severity distribution based on the internal loss data and the scenario data prepared through the scenario analysis, and expressed through Monte Carlo simulation that mixes such distributions and estimates the total severity distribution.

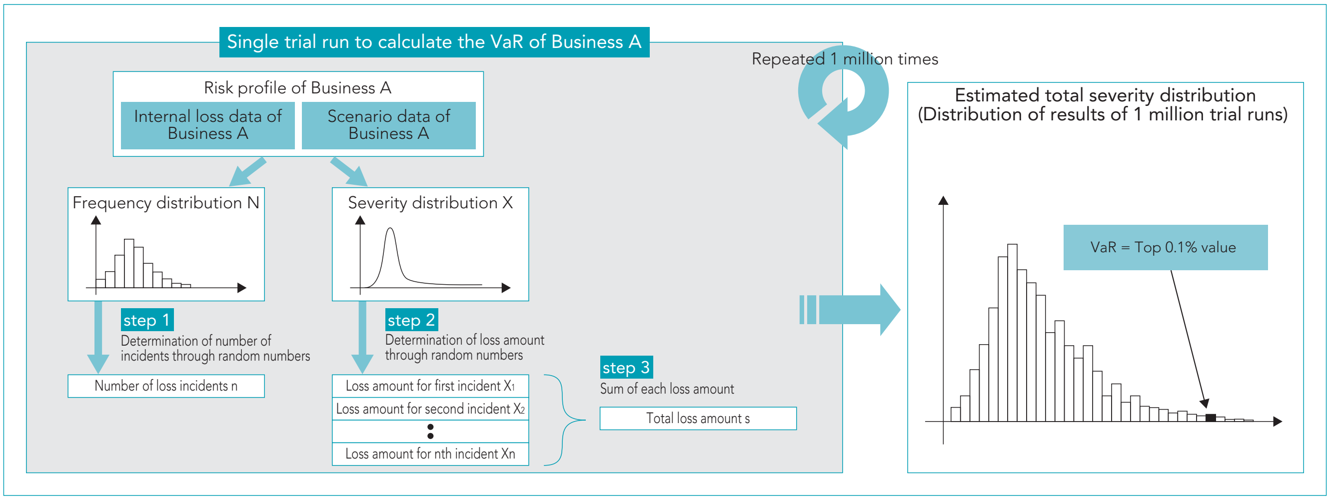
The Poisson distribution has been applied to the frequency distribution, and our own distribution method has been applied to severity distribution in order to grasp the amount of tail risk.

We confirm the appropriateness of the quantification model and the results of the VaR calculations by conducting periodic verifications such as back testing.

• Outline of the Quantification Framework



• Outline of Quantification Model



7. Other Related Matters

(1) Securitization Exposures

Securitization is a transaction where credit risks of multiple underlying assets are divided into two or more different classes forming a senior and subordinated structure, and are then transferred partially or wholly to third parties. Well-known such products, by type of underlying assets, include residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and collateralized loan obligations (CLO), apart from re-securitization products backed by securitization products. In a securitization transaction, credit risk measurements differ between an originator, who brings securitized products to the market, and an investor, who purchases securitization exposures. The originator does not bear any credit risk, if such risk is completely transferred in a securitization transaction, but is left with some credit risk, if it accepted a subordinated portion in designing securitized products. The investor who purchased securitized products naturally bears credit risk inherent in such products. Meanwhile, re-securitization products, as they are backed by securitization products, make it more difficult to identify the risks involved, and may carry higher credit risk than ordinary securitization products.

We participate in the securitization market principally as an investor, but also have a track record of designing securitized products as an originator. We are also in the business of appropriately managing underlying assets for investors as a trustee in securitization, though we do not bear credit risk in doing so.

1) Management Policy of Securitization Exposures

1. Investor

In principle, we invest in securitization products assigned with high external ratings, and we manage risks by assigning credit ratings (structured ratings) according to our internal credit ratings system. During the investment periods, we regularly monitor not only external ratings but also the status and performance of the underlying assets of each securitization product, risk characteristics and the status of structures of the securitization transactions, which are reflected in a review of credit ratings to ensure stable earnings opportunities. In principle, re-securitization products are also subjected to a similar risk management.

2. Originator

We are considering the possibility of making more active use of securitization transactions, with the SuMi TRUST Bank Group as an originator, as a means of controlling our loan portfolio. In doing so, we plan to design transactions that would effectively realize the intended transfer of credit risks, and also calculate credit risk-weighted assets we bear after securitization in an appropriate manner. The SuMi TRUST Bank Group engages in securitization transactions of assets purchased from third parties, along with the assets held by affiliated companies within the scope of consolidation of the holding company. In both cases, we adopt schemes involving the use of trusts as conduits for the purpose of securitization, where the trust beneficiary rights with respect to the retained subordinated portion remain our exposure.

While securitization products originated by the SuMi TRUST Bank Group are, in principle, held by investors outside the scope of consolidation of SuMi TRUST Holdings, some are held by SBI Sumishin Net Bank, Ltd., an affiliated company of the SuMi TRUST Bank Group.

2) Accounting Policies for Securitization Transactions

In implementing securitization transactions, we have adopted a method of sale that recognizes the extinguishment of financial assets with the transfer to others of control of contractual rights over financial assets, in line with accounting standards for financial products. In the case of loans, for example, we recognize the extinguishment of assets, in principle, when the transfer of assets is legally completed and the payment for the transfer is received. In the case where we hold retained equity after the execution of a securitization transaction, we do not recognize the sale of assets for a portion related to the retained equity concerned, and include it in credit risk-weighted assets. On the other hand, in transactions involving a considerable amount of credit provision without prior payment of fund, an accounting treatment is adopted in which raised funds are recorded as a liability. Meanwhile, assets held for the purpose of securitization transactions are valued according to the accounting standards for financial instruments, and recorded in the banking account.

3) Management Method of Securitization Exposures

In calculating the amount of credit risk for securitization exposures, we use specific individual credit ratings assigned to securitization exposures, and measure the risk amount in much the same way as with ordinary corporate exposures. Interest rate risk associated with securitization exposures is subject to the calculation of market risk.

4) Compliance with Capital Adequacy Regulations

In calculating credit risk-weighted assets in securitization exposure, we prioritize calculation methods and choose the most applicable calculation methods. For securitization exposures assigned with qualifying external ratings, we use an "external ratings-based approach" to calculate risk-weights. For securitization exposures without qualifying external ratings, we apply the "supervisory formula" commensurate with the characteristics of underlying assets to the calculation of risk-weights. Securitization exposures to which neither of the above-mentioned approaches can be applied are deducted from total capital. The total of capital charges against securitization exposures held is not to exceed the amount of required capital in the case where the IRB Approach is applied to underlying assets.

Qualifying rating agencies we use when we calculate credit risk-weighted assets with the "External Ratings-Based Approach" are Rating and Investment Information, Inc. (R&I); Japan Credit Rating Agency, Ltd. (JCR); Moody's Investors Service, Inc. (Moody's); Standards & Poor's Rating Services (S&P); and Fitch Ratings Ltd. (Fitch).

While securitization exposure is in principle subject to credit risk-weighted calculations, we use the standardized approach when calculating market risk-weighted equivalents.

(2) Banking Account Equity Exposures

We purchase equities through the banking account as part of our investment operations, and also make capital participation in organizations that can be expected to bring benefits to us and acquire equities in our clients to help strengthen business relations with them.

1) Management Policy for Banking Account Equity Exposures

While some of the equities we hold are intended to gain short term investment returns or returns pertaining to long-term business relations, listed stocks are marked to market and are therefore exposed to the risk of market price fluctuations.

We measure the risk of equity exposures by broadly classifying them into those listed and unlisted. For listed equity exposures with market prices, we recognize the volatility of market prices as risk, and measure equity VaR with an estimated holding period of one month, and the one-tailed 99% confidence interval, in the same way as with other market risks in the banking account, such as interest-rate risk.

Regarding unlisted equities, for which market price fluctuations cannot be observed directly, the amount of risk with a one year holding period is measured by the method of indirectly estimating the volatility of an appropriate alternative indicator or by invoking the PD/LGD Approach prescribed under capital adequacy regulations.

As stocks of consolidated subsidiaries are canceled out with capital accounts of such subsidiaries on the consolidated financial statement, capital on the consolidated financial statement is affected not by price fluctuations of equities of subsidiaries but by fluctuations of prices of assets held by subsidiaries. Thus, the risk to be measured is not the risk of the value of stocks held declining but the credit risk and market risk directly borne by subsidiaries. In contrast, the risk to be measured for equity method affiliates is the risk of the value of stockholdings declining.

2) Management Method of Banking Account Equity Exposures

Under capital adequacy regulations, we apply different risk calculation methods for domestic and overseas equity exposures.

As for domestic equities, equity exposures to obligors and listed companies are calculated with the regulatory formula using credit ratings assigned. We apply the simplified approach to exposures of domestic stocks without credit ratings and overseas equities, and calculate risk assets by multiplying those exposures by risk-weights set separately for listed and unlisted equities.

(3) Credit Risk Mitigation Measures

Controls of credit exposures can be achieved not simply by reducing the balance of outstanding credit but also by seeking to loan protection via collateral and guarantees. These protection measures are collectively called “credit risk mitigation techniques.”

While we measure the creditworthiness of clients comprehensively by looking at their business status and technological capabilities as well as their future potential, we also employ the credit risk mitigation techniques in order to cover deficiencies in creditworthiness or enhance the quality of loans.

In doing this, it is necessary for the credit risk mitigation techniques to be “valid” both legally and practically. In order to ensure that validity, we set internal standards for sound and reliable protection and management. In recent years, we have witnessed the emergence of a new strain of collateral, which is not included in the past standard method, such as “intellectual property rights.” We intend to respond to the demands of the times, and are striving to build up our capabilities to accurately assess new kinds of assets.

1) Collateral

While collateral cannot be determined uniformly due to varying specific circumstances of obligors, we accept collateral that is most suitable for the use and character of loans and has good security qualifications.

We investigate and assess collateral in a prudent manner, bearing in mind the degree of difficulty in actual disposal and realization of collateral as well as legal limitations and economic constraints.

Principal collateral we accept includes the following:

- Commercial bills before maturity that fully meet statutory requirements with settlement certainty
- Yen-denominated time deposits and deposits at notice with us
- Beneficiary rights of principal of designated money in money trusts or beneficiary rights of principal and income of such trusts with us
- Beneficiary certificates of loan trusts with us (both registered and bearer form)
- Public and corporate bonds, listed stocks and securities investment trusts (bearer form)

- Land or land and buildings located for manageability, ease of disposal and with certain collateral quality
- Ships with certain collateral quality
- Foundations having good-quality, well-managed properties with settlement certainty in terms of earning capacity
- Claims payable to specific persons that meet certain requirements

The assessment of collateral is conducted once a year, in principle, for real estate and ships, while equities and other collateral with market value are assessed by current prices.

2) Guarantees

Guarantees are classified into several types, including specific debt guarantees covering only specific debts and revolving guarantees. In any event, we recognize guarantees that are consistent with our validity criteria for the effects of credit risk mitigation, including those with confirmed guarantee capacity and guarantee intentions, and also recognize guaranteed transactions in the process of screening credit applications. While we broadly recognize the validity of guarantees not only with formal guarantee agreements but also under signed memorandums and commitments to guarantee depending on accompanying terms and conditions, we set requirements for documents and other materials used to confirm potential guarantors' abilities and intentions of providing guarantees and give importance to the substantive effectiveness of guarantees instead of simply relying on written guarantee agreements.

3) Offset

We net loans owned against deposits from the same counterparty, in principle, on the basis of Japanese laws and only with clients who have concluded bank transaction agreements containing clauses for timely netting.

4) Netting

When we conduct derivatives transactions and repurchase agreement transactions, we conclude, in principle, legally valid bilateral netting agreements (ISDA master agreements, etc.) with counterparties. When reasons for early termination emerge, we mitigate credit risk by invoking bilateral netting agreements for the closeout netting of multiple derivatives transactions and repurchase agreement transactions concluded with counterparties concerned. We are also pushing for the conclusion of the Credit Support Annex ("CSA") as associated agreements to ISDA master agreements in order to minimize credit risk in derivatives transactions. CSAs are bilateral agreements for credit enhancement, under which we and CSA counterparties calculate the present value of a derivatives transaction and the party with revaluation loss provides the other party with unrealized gains via collateral with the value equivalent to the revaluation loss.

Collateral is offered and received on a continuing basis between us and the CSA counterparty to make the revaluation gain/loss neutral. When the creditworthiness of one party deteriorates and is downgraded, however, the need arises to offer additional collateral* to account for the impact of the downgrade.

* The value of additional collateral varies depending on individual agreements with CSA counterparties.

5) Compliance with Capital Adequacy Regulations

The capital adequacy regulations narrowly define types and requirements of credit risk mitigation techniques that can be used to mitigate risk-weighted assets in the calculation of credit risk-weighted assets. As described above, we make use of credit risk mitigation techniques as much as possible, and set the scope of the credit risk mitigation techniques that can be applied to the calculation of our capital adequacy ratio as follows, after scrutinizing their eligibility for the notified requirements:

1. Qualifying Financial Asset Collateral

- Netting of loans against deposits (limited to jurisdictions where netting is authorized in a stable manner and also based on judicial precedents, etc., with offset agreements in place), deposits as collateral
- Legally valid bilateral netting agreements and credit enhancement by CSA, regarding derivatives transactions and repurchase agreement transactions
- Listed securities (Acceptable listed securities are shares. When accepting shares as qualifying financial assets collateral, we take into consideration the relationship between the obligor and the issuer of the shares)

2. Qualifying Assets Collateral

- Qualifying real estate asset collateral (land only or land and accompanying buildings, foundation)
- Other qualifying asset collateral (ships)

3. Guarantee and Credit Derivatives

- We accept guarantees mainly from public-sector organizations and business enterprises (guarantors) and purchase credit derivatives mainly from financial institutions (protection providers). Legally valid agreements, which appropriately provide the rights for guarantee and protection unharmed, are classified as qualifying instruments so that credit risk mitigation effects are ensured.

6) Regarding the concentration of credit and market risks resulting from the use of credit risk mitigation techniques

- Guarantees and credit derivatives are deemed to involve concentration risk.
- Guarantors tend to be the parent companies of obligors, and we are not relying on any particular guarantors. In our controls of the credit limits regarding an obligor, we monitor and control concentration risk through total management of the entire group to which the obligor belongs regardless of whether a guarantee is provided by the parent or not.
- The total notional principal amount of credit derivatives purchased by SuMi TRUST Bank is not significant as credit risk. We manage the notional principal amount as part of the credit limits for the protection provider.

(4) Credit Risk in Market Trading

Approach to Manage Credit Risk in Market Trading

When conducting market trading with financial institutions as counterparties, credit risk as well as market risk arises, making it necessary to conduct appropriate risk management in accordance with the types of transactions. In order to contain credit risks associated with repetitive market trades with specific counterparties within a certain range, we are managing such risks by establishing credit lines for respective counterparties.

In terms of posting of exposure, in principle, we treat principal or notional principal in contracted market trades as credit equivalents. We calculate these by applying the current exposure method in principle for derivatives transactions. We also apply the same method to the calculation of credit equivalents regarding transactions with long settlement periods where the period between trade date and delivery date exceeds a certain predetermined period. Regarding these market trades, the middle office controls credit limits integrally for both on-balance sheet and off-balance sheet transactions on a monthly basis and manages credit lines in an appropriate manner.

Compensation Disclosure Data:

Sumitomo Mitsui Trust Bank, Limited

1. Development Status of Organizational Structures Concerning Compensation for Applicable Officers and Employees within the SuMi TRUST Bank Group

(1) Scope of "Applicable Officers and Employees"

The scope of "applicable officers" and "applicable employees, etc." (collectively "applicable officers and employees") as defined in the compensation notification to be disclosed is as follows:

(i) Scope of "Applicable Officers"

Applicable officers include directors and corporate auditors of SuMi TRUST Bank, but exclude external directors and external auditors.

(ii) Scope of "Applicable Employees, etc."

Of SuMi TRUST Bank's officers and employees outside the scope of applicable officers as well as officers and employees of its significant consolidated subsidiaries, a "person receiving a substantial amount of compensation" with significant consequence on the business operation or asset status of SuMi TRUST Bank and its significant consolidated subsidiaries, are subject to disclosure as applicable employees, etc.

(a) Scope of "Significant Consolidated Subsidiary"

"Significant consolidated subsidiary" refers to a consolidated subsidiary either with its total assets representing more than 2% of the consolidated total assets, or with significant consequence on the SuMi TRUST Bank Group's management, namely Sumitomo Mitsui Trust Panasonic Financial Co., Ltd.

(b) Scope of a "Person Receiving a Substantial Amount of Compensation"

A "person receiving a substantial amount of compensation" refers to a person who receives compensation in excess of a certain threshold amount from SuMi TRUST Bank or its significant consolidated subsidiaries. Such a threshold amount is set at ¥40 million within the SuMi TRUST Bank Group.

With respect to a person receiving lump-sum retirement benefit, this amount is first wholly deducted from the amount of compensation, then the "lump-sum retirement benefit divided by the number of years of service" is added back to calculate the deemed compensation for the purpose of determining whether the compensation is substantial or not.

(c) Scope of "Those with Significant Consequence on the Business Operation or Asset Status of the SuMi TRUST Bank Group"

"Those with significant consequence on the business operation or asset status of the group" refers to the persons who normally conduct transactions, or manage business affairs that have considerable impact on the business operation of SuMi TRUST Bank, the SuMi TRUST Bank Group or its significant consolidated subsidiaries, or whose transactions can cause loss with significant impact on their asset status. Specifically, they include executive officers and employees equivalent to general managers in the departments involving loan operations and market risk management.

(2) Determination of Compensation for Applicable Officers and Employees

(i) Determination of Compensation for Applicable Officers

SuMi TRUST Bank determines the total amount of compensation for officers based on decisions made at the General Meeting of Shareholders. Of the total compensation, individual allocation of compensation for directors is at the discretion of the Board of Directors, while that for corporate auditors depends on deliberations of corporate auditors.

(ii) Determination of Compensation for Applicable Employees, etc.

Compensation for employees, etc. within SuMi TRUST Bank and the SuMi TRUST Bank Group is payable, subject to the policies established primarily by the Boards of Directors and others of SuMi TRUST Bank and its significant consolidated subsidiaries. According to such policies, compensation systems are designed by human resources departments of SuMi TRUST Bank and its significant consolidated subsidiaries, independent of the business promotion departments and documented as payroll rules, etc. Information on the compensation systems of the significant consolidated subsidiaries is reported to, and verified by, the Personnel Department of SuMi TRUST Bank on a regular basis.

Compensation for overseas employees, etc. are determined and payable under the local compensation system established by each overseas operation on its own, in compliance with local laws and regulations and local employment practice. Establishment and change of overseas compensation systems require consultation with, and validity verification by, the Personnel Department of SuMi TRUST Bank.

2. Adequacy Evaluation of Design and Operation of the Compensation System for Applicable Officers and Employees of SuMi TRUST Bank

(1) Policies Concerning Compensation for Applicable Officers and Employees

(i) Policies Concerning the Compensation for "Applicable Officers"

The limit amount for compensation for officers as decided by the General Meeting of Shareholders is ¥80 million per month for directors, and ¥20 million per month for corporate auditors, apart from a ¥100 million annual limit for stock options (share acquisition rights) for directors. Compensation for directors and corporate auditors are capped by these limits.

Compensation for directors is intended to function effectively as an incentive to make improvements in corporate performance and expand corporate value in order to achieve steady and sustainable growth of the SuMi TRUST Bank Group.

The amount of compensation is also aimed at reflecting corporate performance, the contribution of each director to corporate performance, efforts for expansion of business operations in the medium- to long-terms, and for improvement of corporate value, and so forth. Amounts of compensation are determined based on an annual compensation policy determined by the Board of Directors and on an objective evaluation made by the Performance Evaluation Committee.

Furthermore, for the fiscal year under review, Sumitomo Mitsui Trust Holdings, Inc. allotted share acquisition rights to directors as a stock option to further enhance their motivation and morale that helps drive stock price increases, medium- to long-term corporate performance, and ultimately shareholder profits.

(ii) Policies Concerning Compensation for "Applicable Employees, etc."

Compensations for the SuMi TRUST Bank Group's employees, etc. are determined by performance assessments, to reflect each employee's contribution to corporate performance in determining a performance-linked portion and evaluating target achieving performance. The human resources departments at each company have ensured that compensation payments are not excessively performance-oriented, on the basis of the compensation system in place, current status of performance assessment and actual payment records.

On the other hand, compensation for overseas employees is determined under a basic principle by which payrolls are determined based on job description and responsibility, while bonuses are determined based on performance. Meanwhile, the total compensation budget is capped locally, based on the performance of each operation, preventing excessive impact on the overall compensation fund from individual employees' extraordinary performance.

3. Consistency of SuMi TRUST Bank's Compensation System for Applicable Officers and Employees in Line with Risk Management, and Linkage between Compensation and Performance

In determining compensation for applicable officers, the total amount of compensation is determined based on decisions made at the General Meeting of Shareholders. In determining compensation for applicable employees, etc., an adequate budget is arranged in consideration of the SuMi TRUST Bank Group's financial standing and other considerations.

• Total Amount of Compensation for Applicable Officers and Employees within the SuMi TRUST Bank Group (From April 1, 2014 to March 31, 2015)

Category	Headcount	Millions of Yen						
		Total amount of compensation	Total amount of fixed compensation	Basic Compensation	Total amount of variable compensation	Bonus	Compensation as stock option	Retirement benefits
Directors (excluding External Directors)	14	774	603	603	105	105	66	—
Corporate Auditors (excluding External Auditors)	4	107	107	107	—	—	—	—
Applicable employees, etc.	5	275	158	158	117	117	—	—

* Amount of compensation stated above includes compensation for (concurrent) directorship at the significant consolidated subsidiaries.