

Dialogue between External Director and Investors

Below is an overview of the Q&A session held during “SuMi TRUST IR Day,” a briefing session for institutional investors, in December 2018.



External Director
Chairperson of Audit Committee

Shinichi Saito

Question

What does the Group see as its group management challenges?

With regard to group management, we believe it is essential to consider the vulnerabilities of the systems used by each company and to take a group-wide approach, including examining what kinds of compliance or operational incidents have occurred. Furthermore, we discuss the viability of each Group company's capitalization and any financial discipline issues.

The SuMi TRUST Group engages in major integration of asset management and administration businesses, so not only is group management important for us, but revenue contributions are also rising for Group companies other than SuMi TRUST Bank, our core company. Given this, we see group management as the launching point of our management priority issues.

Question

How has asset profitability management changed since the shift to a “company with Three Committees” in June 2017?

Key to asset profitability management is the quality of assets. We engage in various discussions from perspectives of profitability, risks, and returns. Specifically, for our Audit Committee members, issues such as strategic shareholdings, credit, and impairment loss risks and goodwill in business investments are extremely important. They focus on these

issues in their discussions.

Improving profitability is an important discussion point, as are ROA and how to utilize RAF (risk appetite framework) to strategically allocate capital. We clarify top risks and jump risks, including foreign currency liquidity, and are conducting more comprehensive reviews than ever of asset quality issues and, at the same time, business-related latent risks. We also focus on the issue of asset efficiency while discussing, for example, how to improve per-business ROE. I think these are all major changes.

Question

What kinds of discussions have taken place about the nomination and terms of external directors?

Nomination and terms are deliberated on by the Nominating Committee. The committee has started considering whether it would be best to change external directors after they have been in office for a certain duration.

With regard to nomination standards, external directors' roles and contributions are important points, but we believe that the largest issue may be diversity. We have an unusual nature, as we are a financial institution, so it is important that we not only consider internal logic, but also take into consideration outside perspectives and use them to enhance our management.

Question

The committees exist in order to check the management structure and management team. Please tell us how the committees themselves are checked.

Before each committee, a Board of Directors evaluation is conducted, and then individual committee evaluations are conducted. There are also regular opportunities for each committee to report on their duty execution status to the Board of Directors.

Currently, the Audit Committee's evaluation is a self-evaluation. However, discussions are currently underway regarding evaluations by other directors or, if necessary, executives.

Question

Have there been any changes to the Company's relationships with supervisory agencies as a result of the transition to a "company with Three Committees"? Are there any opportunities for external directors to directly communicate with supervisory agencies?

I myself was a corporate auditor when the Company was a "company with a Board of Corporate Auditors," and an Audit Committee member after the Company became a "company with Three Committees" in 2017. As a corporate auditor, I had multiple opportunities to engage in discussions with supervisory agencies. I believe the agencies needed to recognize the importance of external directors and external auditors in financial institutions, while at the same time requiring financial institutions to have a deep understanding of financial administration. In a reflection after the financial crisis, I think there was the recognition of a need for closer communication and mutual understanding between regulatory agencies and financial institutions.

I have not noticed any particular changes since becoming a "company with Three Committees." Communication has increased, but this is a change that has been brought on by the changing times, and is not something unique to SuMi TRUST Holdings.

**Q**uestion

What are your opinions on the Board of Directors' discussions and the implementation status of governance functions in emergency situations?

As far as how the Audit Committee should respond in an emergency situation, the committee's response is key if we are exposed to risks when a crisis occurs. I believe that initial response is particularly important.

The first thing to do is to identify the facts. This is followed by confirming the extent of damages caused by the incident and considering how to respond and what reoccurrence measures to implement. It is often impossible to completely avoid crises, so instead the problem lies in preventing such crises from becoming long-term latent issues. I believe that the Three Lines of Defense and the functions of the Board of Directors and Audit Committee are the most important.

The question is therefore how to handle actual risk management and communications, and I believe that for the Audit Committee, what is important is the committee's structure. Having a structure that ensures neutrality and objectivity in the event of a crisis is of particular importance.

Question

The activities of Audit Committee members seem extremely extensive. Do you think such a burden is appropriate for external directors?

The activities of Audit Committee members (compared to corporate auditors when the Company was a "company with a Board of Corporate Auditors") have, indeed, increased, and I sometimes come to the Company twice a week. In addition to activities of the Audit Committee, there are preparatory briefings, etc. for the Board of Directors.

SuMi TRUST Holdings, in particular, is only in its second year as a "company with Three Committees," so it is important to share information, understand operations, and have a deep understanding of what kind of person is doing what kind of work.

Governance does not function properly just by creating a system. The personnel side is also important. In particular, for coordination between the first, second, and third lines, we get a feel through communications with various executive officers and internal control units. This is a responsibility, not a burden. Such activities are essential for executing the duties of the Audit Committee and its chairperson.