Compliance with International Financial Regulations

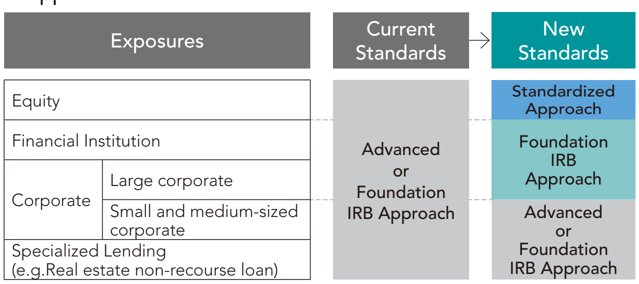
1. Compliance with Finalized Basel III Reforms

Triggered by the financial crises in 2008, the Basel Committee on Banking Supervision (BCBS) made the agreement to implement new regulations, called "Basel III." Basel III includes the implementation of higher capital requirements, leverage ratio and liquidity requirements. In Japan, Basel III has been implemented in phased manner from the end of March 2013.

Subsequently, in December 2017, an international agreement was reached on "Finalized Basel III," which aims to constrain the use of internally modelled approaches by banks and to introduce a new capital floor based on the standardized approaches to the risk-weighted assets measurement approach in the calculation of the capital adequacy ratio.

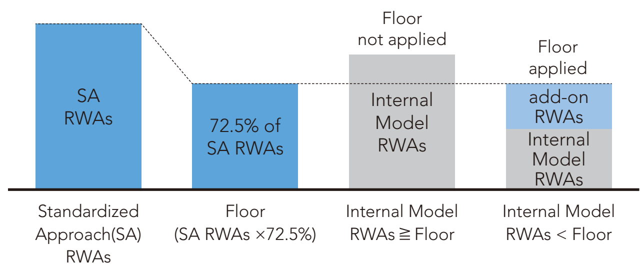
"Finalized Basel III" is required to be implemented from 2023. The Group will work to secure the target level through the future accumulation of capital and other means, and promote appropriate profitability and portfolio management to establish a framework for introducing tighter capital requirements.

■Conceptual Diagram of Risk-weighted Assets Measurement Approach for Credit Risk



Standardized Approach: Supervisory risk weight according to external credit ratings
Foundation IRB Approach: Risk weight calculated based on banks' own estimates of probability of default (PD)
Advanced IRB Approach: Risk weight calculated based on banks' own estimates of probability of default (PD) and loss given default (LGD)

■Capital Floor Structure



- In the case where 72.5%* of SA RWAs (Floor) is larger than internal model RWAs, Add-on RWAs are charged.

* As for the applicable multiplier of the floor, starting at 50% in 2023, it will be raised by 5% each year to 72.5% in 2028.

2. Strengthening of Regulations on Non-financial Risk Areas

Regarding financial risks, BCBS finalized the agreement on Basel III as described above, and major frameworks for various liquidity risk regulations and Single Counterparty Credit Limit (SCCL) are close to being determined. Although minor modifications of details are still needed, the hardest part is over. With this background, international organizations and the financial authorities of each country are focusing on tightening and enhancing regulations on non-financial risk areas. Examples of such areas that have been attracting interest recently include:

■ Operational resilience

■ Incorporation of climate change issues into financial supervision

<Operational resilience>

- Operational resilience refers to the ability of banks to continue "critical operations" in the event of a terrorist attack, cyberattack, pandemic, or natural disaster. The concept was proposed by the Bank of England in 2018 as a comprehensive framework encompassing BCP, cybersecurity, outsourcing management, and similar areas. In 2020, proposals and guidelines related to operational resilience were also issued by the European Commission, the Monetary Authority of Singapore (MAS), the International Organization of Securities Commissions (IOSCO), and the Federal Reserve Board (FRB). The Basel Committee incorporated these approaches into its March 2021 publication "Principles of Operational Resilience."
- As a trust bank entrusted with the investment and management of the assets of our clients, the Group has been paying attention to these trends from early on and is working on developing a compliance framework.

<Incorporation of climate change issues into financial supervision>

- Financial regulators and central banks from many countries are discussing the integration of climate change risks into the oversight of the soundness of the financial system health from the perspective of financial stabilization. In the U.K., the PRA (Prudential Regulation Authority) in 2019 requested that boards of directors of financial institutions develop business strategies that take into account long-term climate change risks. The PRA is planning to conduct stress tests to examine the soundness of the financial institutions when climate change factors are considered. In the U.S., the NYDFS (New York State Department of Financial Services) in 2020 called on financial institutions to integrate climate change issues into their business strategies.
- The SuMi TRUST Group is committed to working proactively to address ESG issues. For example, in December 2020, we published our "TCFD Report 2020/2021," in which we disclosed the results of our risk scenario analyses in line with TCFD's recommendations.