

# Compliance with International Financial Regulations

## 1. Compliance with Finalized Basel III Reforms

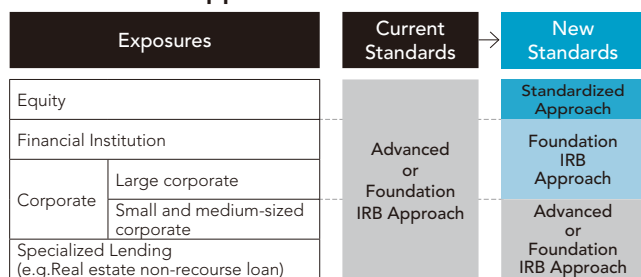
Triggered by the financial crises in 2008, the Basel Committee on Banking Supervision (BCBS) made the agreement to implement new regulations, called "Basel III." Basel III includes the implementation of higher capital requirements, leverage ratio and liquidity requirements. In Japan, Basel III has been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

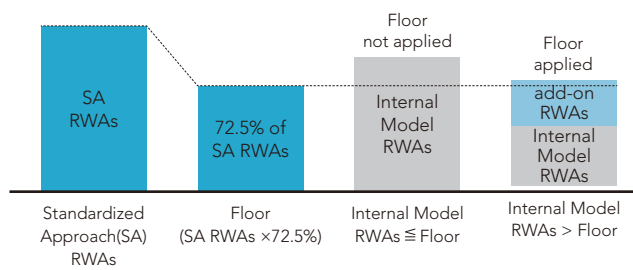
"Finalized Basel III" is required to be implemented from 2022. The Group will work to secure the target level through the future accumulation of capital and other means, and promote appropriate profitability and portfolio management to establish a framework for introducing tighter capital requirements.

### 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 2022, it will be raised by 5% each year to 72.5% in 2027.

## 2. Strengthening of Regulations on Non-financial Risk Areas

Regarding financial risks, BCBS made 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 and 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 non-financial risk areas include:

- Conduct risk management
- AML/CFT (Anti-Money Laundering and Countering the Financing of Terrorism)
- Cybersecurity
- Subcontractor (third party) management
- Maintenance of important functions/strengthening business continuity framework of financial institutions

These areas are correlated and we are being required to strengthen regulations across areas, not only tightening management of our own conduct risk and cybersecurity, but also checking the management status of those of subcontractors and requiring them to establish a certain level of management framework.

There is no established method in place for the financial authorities or the financial industry to tighten these non-financial risk areas yet, and we are still in a stage where various proposals are being made. Some of the areas, such as cybersecurity, require continuous enhancement of regulations.

The Group, as a trust bank group entrusted with the investment and management of the assets of our clients, is committed to further strengthening and enhancing the framework of asset investment and management, while paying close attention to these global regulatory trends.

### Framework for Compliance with International Financial Regulations

Overall supervision	Corporate Planning Dept. (Global Business Management Office)
Capital adequacy ratio/ Liquidity requirements	Risk Management Dept., Financial Planning Dept.
Extra-territorial application of laws Conduct risks	Compliance Dept. (Global Compliance Office)
Support for regulations for overseas bases	Global Business Planning and Coordination Dept.*, Global Markets Business Planning Dept.*, Fiduciary Business Planning Dept.*, Asset Management Business Planning Dept.
Cybersecurity	Risk Management Dept., IT & Business Process Planning Dept.
Overseas Office Recovery & Resolution Planning	Corporate Planning Dept. (Corporate Information Office), Risk Management Dept.

\*SuMi TRUST Bank