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 the former Sumitomo Trust and Banking Co., Ltd. as of the end of March 2012.

Capital Adequacy Ratio Qualitative Disclosure Data:

The Former Sumitomo Trust and Banking Co., Ltd.

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Compensation Disclosure Data:

The Former Sumitomo Trust and Banking Co., Ltd.

Capital Adequacy Ratio Qualitative Disclosure Data:

The Former Sumitomo Trust and Banking Co., Ltd.

1. Overview of Risk Management

The former Sumitomo Trust and Banking Co., Ltd. ("STB") is actively engaging in efforts to enhance its strength as an institution that combines banking, trust, and real estate operations, and to strengthen its business strategies and management infrastructure, while seeking to achieve the right balance between its offensive and defensive capabilities. We recognize the importance of risk management as a key element of our "defensive" capability underlying the vigorous execution of business strategies and its place at the top of our management priorities.

In fiscal year 2011, Japan was affected by the Great East Japan Earthquake and the continuing strong yen. Overseas markets were affected by Europe's continuing fiscal deficit problems and growing tension in the Middle East. Thus our view is that financial markets may become unstable, and we must watch out for the emergence of new risks.

In this environment, considering the changes in asset size and risk structure of the new integrated trust bank, we continue working for a more advanced risk management system.

We think the basis of risk management is to ensure the efficiency of PDCA (Plan-Do-Check-Action) cycles for each risk category across STB according to the "Risk Management Policy" set by the Board of Directors. This STB risk management framework, we recognize, allows us to properly identify, assess, monitor, and control risks. Especially under the recent circumstances where the business environment is undergoing significant change and financial products have become increasingly complicated and more sophisticated, it is essential to clarify authority and its delegation, organizational structure, and management processes, as well as to enhance human resources development in order to improve the effectiveness of the PDCA cycle. We think taking further steps to make the internal risk management framework more sophisticated is the key to strengthening our competitiveness from a defensive perspective.

(1) Basic Policies on Risk Management and Risk Categories

Our "Risk Management Policy" classifies risk categories by the cause of risk we face in business operations, into credit risk, market risk, operational risk, and funding 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 us to incur loss.

Market risk is the risk of loss caused by changes in the value of assets or liabilities we hold due to fluctuations of market factors such as interest rates, stock prices, and foreign exchange rates.

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

• Risk Categories

(As of March 31, 2012)

		Risk Category	Risk Management related Department	Risk Description
Enterprise Risk Management (Risk Management through Comprehensive Assessment of All Risk Categories)	Integrated Risk Management (Quantitative Risk Management using VaR as an Integrated Measurement)	Credit Risk	Corporate Risk Management Department	Risk of incurring losses due to the value of an asset (including off-balance sheet assets) decreasing or impairing, owing to reasons such as deterioration in the financial condition of a obligor.
		Market Risk	Corporate Risk Management Department	Risk of incurring losses due to fluctuations in the value of assets/liabilities or revenues thereof, either due to fluctuations of items such as interest rates, stock prices and foreign exchange rates, or owing to fluctuations in the value of other assets.
		Operational Risk	Corporate Risk Management Department	Risk of incurring loss resulting from inadequate or failed internal processes, people and systems or from external events (including the following risks).
		Business Processing Risk	Operations Process Planning Department (or Personnel Department for Internal Fraud)	Risk of incurring losses arising from executives or employees neglecting to engage in proper business activities, or other incidents such as accident or fraud.
		Information Security Risk	IT & Business Process Planning Department	Risk of incurring losses for clients or STB, owing to factors such as information management, system failure or improper management of system development projects.
		Compliance Risk	Legal and Compliance Department	Risk of incurring losses for reasons such as penalties, claims or lawsuits arising from a lack of compliance with laws, regulations or social standards in Japan and abroad, or an inability to complete transactions due to contractual impediments including the lack of necessary provisions or lack of legal capacity by the transaction counterparty.
		Human Resource Risk	Personnel Department	Risk of incurring losses due to issues such as unequal or unfair management of personnel, including issues related to compensation, benefits, release from employment and harassment.
		Event Risk	Corporate Administration Department	Risk of incurring losses arising from extraordinary situations such as natural disasters, war and criminal offenses.
		Reputational Risk	Corporate Risk Management Department	Risk of incurring losses due to a (possible) major impact on business as a result of deterioration in reputation for STB or its subsidiaries, owing to reasons such as mass media reports, rumors or speculation.
		Funding Risk	Corporate Risk Management Department	Risk of loss due to inability to secure necessary funds, or due to being forced to pay interest rates significantly above normal in fund procurement, and risk of loss due to inability to transact in a market, or due to being forced to accept disadvantageous prices in transactions.

incidents. In our case, business processing risk, information security risk, compliance risk, human resource risk, event risk, and reputational risk are included.

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

(2) Risk Management Structure

In accordance with "Risk Management Policy," we set down the roles and responsibilities of operational organizations and departments related to risk management as follows:

1) Board of Directors

It formulates policies and plans concerning the management of overall risks that are faced by STB, and disseminates the policies and plans throughout the company as well as vests relevant organizations with authority. It also establishes the Executive Committee and other committees as bodies to deliberate and decide on matters relating to specific business strategies, risk management and operations.

2) Executive Committee

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

3) Risk Management related Departments

As independent departments, they are responsible for accurate recognition and continuous assessment, appropriate management and administration of risks, as well as integrity of the compliance (observance of relevant laws and regulations) frameworks.

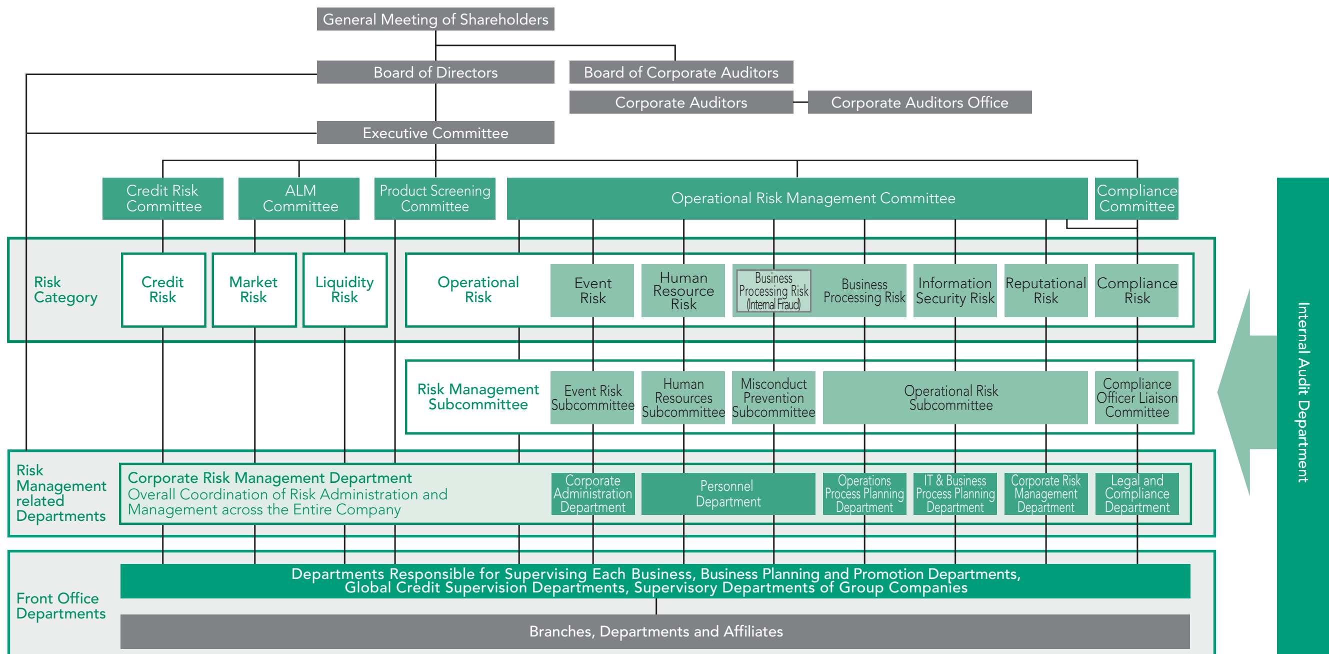
Among them, the Corporate Risk Management Department has the company-wide coordination function for risk management for comprehensive management of various risks. Each risk category has a risk management-related department in charge, which undertakes the monitoring and analysis of risks and the planning and promotion of appropriate risk management frameworks.

4) Front Office

These departments execute transactions and operations for the purpose of increasing revenues, while also supervising the accompanying planning, examining, or engaging in administrative management. In accordance with the policies and plans set out by the Board of Directors, front office departments engage in operational

• Risk Management Structure

(As of March 31, 2012)



administration aimed at ensuring the effectiveness of risk management, such as implementing appropriate controls that reflect the scale and characteristics of risks.

5) Internal Audit Department

This department is involved in preparing the necessary framework to implement effective internal auditing. Reporting directly to the President and CEO, the Internal Audit Department assesses and verifies the status of all activities as an independent department.

2. Credit Risk

Internal Risk Management Framework

Credit risk is risk accompanying credit operations (loans based on the credibility of clients), which is the most basic risk involved in the "credit creation function"—the basic function of finance. Overseas, global financial markets are affected by environmental changes such as the European debt crisis and the rise of emerging economies. In Japan, business performances of domestic corporations are becoming uncertain, partly due to the impact of the Great East Japan Earthquake and continued yen strength. Considering these conditions, we are building a more advanced credit risk management system. 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 business improvement of financial facilitation related clients etc., are also important from the viewpoint of credit risk management. Therefore, we are working to develop systems to handle them appropriately, considering the intentions of the Act concerning Temporary Measures to Facilitate Financing for SMEs, etc.

(1) Credit Risk Management Policy

The basic policy of our credit 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 expense rates and expected loss ratios 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 for ensuring appropriate risk-return. Our credit risk management covers not only credit transactions in the banking account but also transactions in the principal guaranteed trust account (Money Trusts and Loan Trusts).

(2) Organizational Structure for Credit Risk Management

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:

1) Board of Directors

It decides on important matters related to credit risk management when establishing semiannual 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 approves standards for self-assessment, 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) Executive Committee

Based on the reports of credit risk management (including the results of asset assessment), the Executive Committee 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) Credit Risk Committee

It 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) Corporate Risk Management Department

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

5) Research Department

This department applies credit ratings based on industry research and research on credit evaluation of individual companies along with quantitative analysis, from a neutral viewpoint independent from branches, departments, Global Credit Supervision Department I and Global Credit Supervision Department II.

6) Global Credit Supervision Department I and Global Credit Supervision Department II

They screen 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

They Manage credit transactions appropriately and conduct self-assessments (initial assessments).

8) Internal Audit Department

It conducts the internal audit of internal risk management frameworks for various processes.

(3) Other Related Matters on Credit Risk

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. The credit amounts equivalent to derivatives transactions are calculated and managed on a current exposure basis (i.e., the reproduction cost of the transaction concerned). We place limits on credit exposures thus calculated, and also look into the impact of credit risk realization of large obligors and the particular degree of concentration in industry sectors with large credit exposures, reporting to the Executive Committee on a quarterly basis.

To manage country risk (the risk of investments or lending becoming irrecoverable due to political, economic or social conditions of that country), we control exposures by country (the total sum of exposures in a given country) in addition to control of exposure to each obligor.

2) Credit Ratings and Self-Assessment

"Credit ratings"* that indicate the credit status of obligors and the possibility of defaults provide the basis for credit screening of individual transactions and credit portfolio management.

* For details of our credit ratings system, please refer to "3. Internal Ratings System" on page 454.

Our credit ratings use a method that combines a statistical quantitative model and qualitative assessment ascertaining characteristics of individual obligors, and they also serve as the basis for credit risk calculations using our Internal Ratings-Based Approach ("IRB Approach") based on capital adequacy regulations. Our credit rating system assigns ratings from 1 through 10 to a wide range of obligors, from all corporate clients, including banks, to project

finance (loans for a particular project, to be repaid with the cash flows of that project with no, or limited, recourse to the borrower's other assets) and other structured finance transactions.

In principle, we conduct self-assessments for all assets in the banking account and the principal guaranteed trust account on a constant basis, and determine the "classification of obligors" by assessing clients' 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 and the risk of the value of assets becoming impaired. In STB, we manage credit risk through self-assessment, and also write off bad loans and set aside loan loss reserves in an appropriate manner.

• Comparative Table of Credit Ratings and Self-assessment

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

(Note) Individual credit ratings can be further adjusted, where necessary, through the addition of [+] or [-] symbols.

The credit rating systems and the self-assessment system share basic financial data of clients, and are administered in a mutually consistent manner, to enable STB to evaluate the soundness of credit portfolios by properly reflecting the creditworthiness of clients. We are also striving to maintain the appropriateness of the system by carrying out reviews of credit ratings.

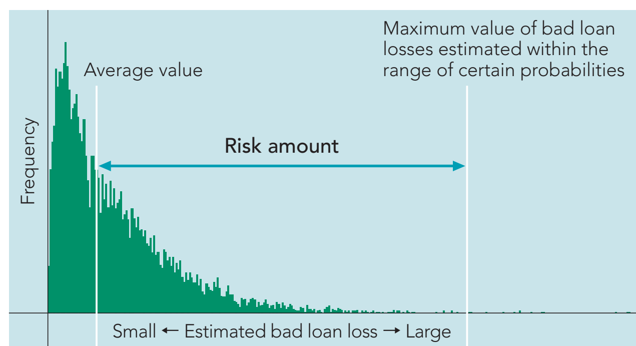
3) Credit Risk Quantification

The measurement of credit risk amount we conduct 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.

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).

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 can also check the appropriateness of capital allocation and the soundness of business operations.

• Risk Amount



In managing the credit portfolio by making use of these features of monitoring, we seek an operation of the credit portfolio that maximizes returns on the overall portfolio, while maintaining the risk amount within a certain range through diversification by individual client and industry sector, and other measures.

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.

We are also working on risk calculation techniques for "price fluctuation risk inherent in credit risk" and "real estate-related risks," and the creation of more sophisticated stress scenarios, corresponding to the characteristics of Sumitomo Trust's assets under our management.

(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, STB has adopted the IRB Approach, which uses credit ratings and other internal data for the management of obligors.

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)

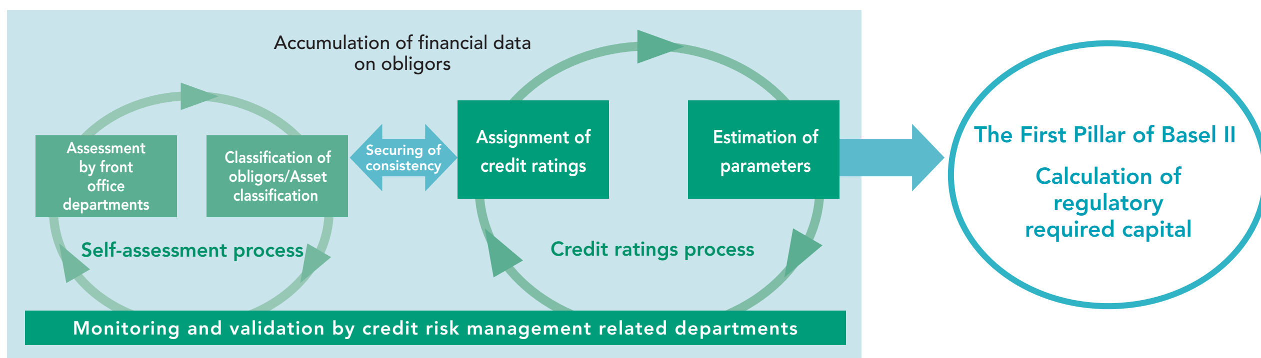
STB develops its own ratings system (Internal Ratings Management)* in accordance with its risk profiles, and based on this system, STB assigns ratings to obligors. Credit ratings ensure consistency with the results of self-assessment, and the accuracy of credit ratings is secured with credit risk management 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 454.

(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).

• The First Pillar of capital adequacy regulations



(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.

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 below for the breakdown of calculation methods and credit ratings we apply to respective exposures:

• 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	Large enterprises	Supervisory Formula	Obligor Ratings
			Leading small and medium-sized enterprises	Supervisory Formula	Obligor Ratings
		Specialized Lending	Loans for commercial real estate (with high volatility) Project Finance, Commodity Finance, Object Finance	Supervisory Slotting Criteria Approach	Structured Ratings
		Purchased eceivables	Regulatory formula for underlying assets	Supervisory Formula	Obligor 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
		Sovereign Exposure		Supervisory Formula	Obligor Ratings
		Bank Exposure		Supervisory Formula	Obligor Ratings
		Equities, etc.	Domestic listed equities (including OTC equities), equities of domestic unlisted obligors	PD/LGD Approach	Obligor Ratings
			Equities of domestic unlisted firms with no credit exposure, foreign equities	Simplified Approach	—
	Retail Exposure	Retail Exposure	Residential mortgage exposures	Supervisory Formula	Credit Pools
			Qualifying revolving retail exposures	Supervisory Formula	Credit Pools
			Other retail exposures	Supervisory Formula	Credit Pools

* 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.
External Ratings-based Approach: An approach that uses risk-weights mapped to external ratings.
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 464, "6. (l) Securitization Exposures."
2. For "funds," we apply calculation methods that are appropriate for respective underlying assets.

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 Estimation Method

In our integrated risk management, we estimate PD, LGD and EAD, and of them, we use estimates of PD 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 Moody's Investors Service, Inc. (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 10 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.

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*

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

* The typical PD is a single-year PD conservatively estimated to obtain the long-term and stable level by excluding the impact of economic cycles.

(b) Use of Credit Ratings

Authority for originating transactions, criteria for self assessment, standards for credit pricing, 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, partially use the Standardized Approach, taking into account the need for accumulation of external ratings data, for exposures subject to the transitional phase to the IRB Approach (the "phased rollout of IRB Approach") and for insignificant exposures excluded from the scope of application of the IRB Approach.

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. Subject to our "phased rollout" exposures are, among subsidiaries undertaking lending operations*, those exposures that require a certain period for developing systems to estimate the necessary parameters to be applied for their credit pools or credit ratings. We plan to switch to the IRB Approach by the end of September 2013.

* Sumishin Real Estate Loan & Finance, Limited (currently Sumitomo Mitsui Trust Loan & Finance Co., Ltd.) (assets transferred from First Credit Corporation) and the Sumishin Panasonic Financial Services (currently Sumitomo Mitsui Trust Panasonic Finance) Group.

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 and frequency of the expected credit loss
(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 and Credit Pools System

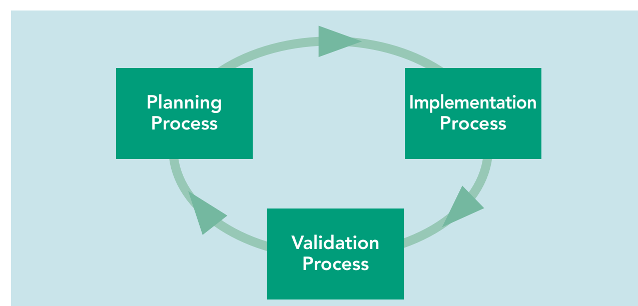
The internal ratings system ranks the PD (probability of default) of obligors and assigns a typical PD for each credit rating grade (credit rating and credit pool category) or for each credit pool.

Our internal ratings system is intended to ensure an appropriate evaluation process for financial assets held by the STB Group (excluding insignificant consolidated companies),and contribute to profit management and credit risk management in accordance with the Risk Management Policy. Moreover our internal credit ratings system is broadly divided into the domestic ratings system ("domestic ratings") and the overseas ratings system ("overseas ratings").Each system includes obligor ratings assigned to corporations as well as structured ratings assigned to project finance transactions and securitized products, etc.

(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 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

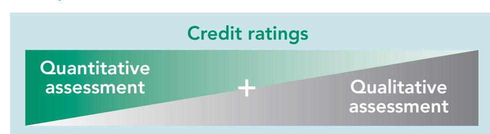
In the implementation process, the credit rating assignment and assignment of credit pools are undertaken in accordance with the criteria prescribed in the planning process. In STB, each designated department such as each business management department takes charge of credit ratings assignments and credit pool assignments 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 STB, 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) Details of the Internal Ratings System

1) Procedures for Ratings Assignment under the Internal Ratings Systems

1. Subjects for Assigning Domestic Credit Ratings

We assign credit ratings to all domestic corporate obligors (residents and nonresident Japanese).

(a) Quantitative Assessment

In domestic 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, financial data employed for the building of the model and the assessment of individual obligors by the model is used with information additional to public financial statements, such as unrealized losses, obtained by front office departments, thus enabling the quantitative assessment that reflects the actual condition of obligors.

(b) 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

(a) Subjects to be Rated

We assign credit ratings to all overseas obligors (non-residents and non-Japanese).

(b) Quantitative Assessment

Given the limited availability of data compared to domestic ratings, overseas ratings look to external ratings (Moody's and S&P) as main judgment factors (for standard ratings and quantitative assessment ratings), and in principle, ratings on unsecured senior bonds are regarded as "standard ratings." 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.

(c) 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

(a) Subjects to be Rated

Structured ratings are assigned to structured finance projects with the source of principal and interest payments as earnings and sales proceeds from specific financed assets. Structured ratings correspond to each PD level. Even when a single obligor or issuer is involved legally, in cases where the probability of default differs for each tranche due to different financial conditions, different ratings may be assigned to different tranches.

(b) Quantitative Assessment

Two indicators are used for the quantitative assessment of structured ratings' 1) 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 2) 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. In the quantitative assessment, we assess default risk during a given period and the certainty of redemptions by the sale of subject property at maturity and/or refinancing by combining the two indicators above.

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

(c) 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. Procedures for Assignment of Credit Pool Categories

(a) 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, STB applies the credit pool management approach to loans provided to individuals. However, business finance loans to individuals, the outstanding balance of which is ¥100 million or higher, are assigned obligor ratings and managed individually.

(b) Assignment of Credit Pool Categories

STB divides loans to individuals into several categories according to product type, obligor status, transaction status, collateral coverage status and delinquency status. The loans are divided into three sub-categories' "residential mortgage exposure," "qualifying revolving retail exposure" and "other retail exposures."

4. Market Risk and Funding Risk

Internal Risk Management Framework

Market risk is the "risk of incurring losses due to fluctuations in the value of assets/liabilities or revenues thereof, either due to fluctuations of items, such as interest rates, stock prices and foreign exchange rates, commodities, credit spreads, or owing to fluctuations in the value of other assets." Specifically, the "risk of loss caused in a situation where it becomes impossible to conduct transactions on the market or becomes obligatory to trade at prices significantly disadvantageous than usual due to market volatility" is called market liquidity risk.

Funding risk is the "risk of loss caused in a situation where it becomes difficult to secure the necessary funds or becomes obligatory to raise funds at interest rates significantly higher than usual, due to maturity mismatches between investment and funding and/or an unexpected outflow of funds."

(1) Market Risk and Funding Risk Management Policy

We recognize market risk as the source of profits, and make it our basic management policy to proactively take risks within the allowable range and appropriately manage them in a manner that will maximize returns. Regarding market liquidity risk, our basic policy is to manage it by limiting the amount of transactions involving market risk to an appropriate level. On the other hand, we recognize funding risk as a risk that should be appropriately managed. We make it a basic policy to manage it by setting the appropriate limits to avoid this risk in consideration of our fund raising capabilities.

(2) Market Risk and Funding Risk Management Framework

1) Board of Directors

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) Executive Committee

On a semiannual basis, the Executive Committee deliberates and decides 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) ALM Committee*

On a semiannual basis, the ALM Committee plans 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.

* 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.

4) Corporate Risk Management Department

As a middle office independent from departments responsible for business processing (back offices) and departments responsible for market trading (front offices), the Corporate Risk Management Department is in a position to ensure proper control functions among the front and back offices. The role of this department includes the monitoring of conditions of market and funding risks managed under the ALM Basic Plan, measuring of risk amount and profits/losses, and planning and promoting market and funding risk management measures. It monitors the status of adherence of risk limits and loss limits. The department reports its findings to the members of the ALM Committee on a daily basis, and periodically and directly to the ALM Committee as well as the Board of Directors.

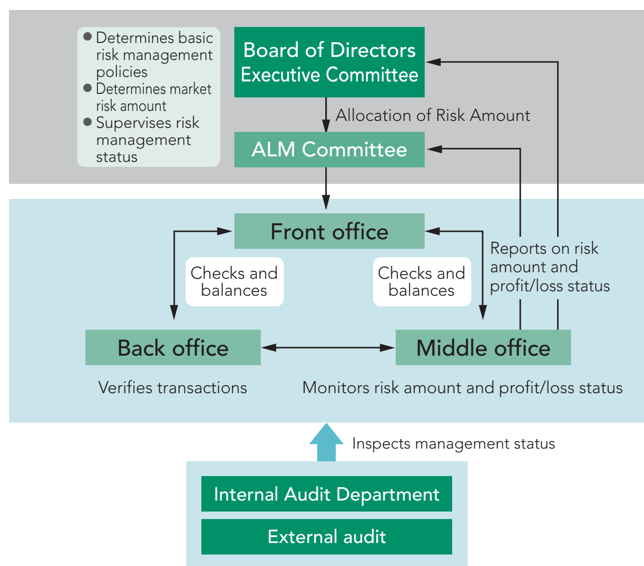
5) Internal Audit Department

This department conducts internal auditing of the adequacy and effectiveness of the risk management framework.

6) External Audit

External audits are conducted as necessary in order to ensure the appropriateness of the risk management processes and procedures.

• Market Risk/Funding Risk Management Structure



(3) Market Risk Management Approach

1) Quantification of Market Risk

We employ Value at Risk (VaR) as a measure of market risk. VaR uses historical actual market fluctuation performance to statistically predict the maximum expected losses under specific conditions.

Based on the internal model developed on our own, we measure VaR and also manage risk by calculating various risk management indicators and carrying out simulations.

Our measurement of VaR using the internal model, in principle, basically employs the variance-covariance method, and at the same time also uses the historical simulation method for calculating some risks (nonlinear risks, etc.) such as in options transactions. By category, market risk can be classified into interest rates fluctuation risk, stock price fluctuation risk, foreign exchange rate fluctuation risk, etc. We calculate market risk by simply adding up all risk categories without considering the correlation between these categories.

2) Back Testing

To validate the reliability of our internal model, we carry out back testing by comparing daily-calculated VaR with actual daily profit and loss. The middle office monitors the results of comparison between actual profit and loss and VaR on a daily basis, and, in the event of actual loss exceeding VaR, conducts a factor analysis, and assures the accuracy of the internal model. In addition, the quarterly results are reported to the ALM Committee.

To enhance the effectiveness of these market risk controls, we back test to verify the reliability and effectiveness of internal models used.

3) Stress Testing

In addition to the management of market risk through the internal model, we regularly conduct stress tests that simulate the extent of potential losses under a situation with changes going beyond statistically expected levels (an overrun of the holding period, etc.). The middle office carries out appropriate stress testing using multiple stress scenarios, including scenarios based on changes in the market on the occasion of past market events and scenarios that reflect the maximum change that occurred over a certain period of time according to the portfolio characteristics. Stress testing is conducted on a monthly basis, and test results are reported to members of the ALM Committee.

We have experienced intense market fluctuations due to financial crises, and so we are implementing more advanced risk management. To further strengthen our supplements to market risk measurement by VaR, we add various scenarios to stress testing, etc.

4) Status of Market Risk

With respect to the monitoring of market risk amount in the banking account, in principle, VaR is calculated on a daily basis following the measurement criteria below:

VaR measurement standards

- Confidence interval: One-tailed 99%
- Holding period: 21 business days
- Observation period: 1 year

The expiry of transactions is in accordance with contract terms.

With respect to the monitoring of market risk amount in the trading account, VaR is calculated on a daily basis following the measurement criteria below in principle:

VaR measurement standards

- Confidence interval: One-tailed 99%
- Holding period: 1 business day
- Observation period: 1 year

The market risk amount (VaR) described above are managed to fall within the amount of risk capital allocated to market risks. In the assessment of the adequacy of capital, the integrated risk amount (overall VaR), which also includes the risk amount of risk categories other than market risk, is compared with risk capital.

5) Market Liquidity Risk

Market liquidity risk is an unavoidable risk that arises whenever market risk is undertaken. We manage market liquidity risk by keeping the transaction amount involving market risk at an appropriate level. We do this by determining the acceptable level of market risk in consideration of whether such a level is sustainable in keeping transactions at a reasonable price, based on market size and other factors.

(4) Funding Risk Management and ALM Management

We manage funding risk on a daily basis by setting an upper limit on the daily financing gap (the amount of funds required) and check whether future financing gaps, including planned investment amounts, can be covered by assets easily convertible into cash and funds to be raised from the market, and conduct monitoring to ensure proper cash flow. In addition to the management described above, we perform liquidity stress tests based on various scenarios which assume stress unique to STB and overall market stress. We also confirm that even if unexpected situations occur, there are sufficient liquid assets. Also, we take all possible measures to ensure appropriate funding risk management. For example, we have established three different settings for managing funding risk—"normal times," "times of concern" and "times of emergency"—depending on financing liquidity conditions, and have developed liquidity contingency plans for the "times of concern" and "times of emergency."

(5) Compliance with Capital Adequacy Regulations

1) Measurement 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.

The internal model used in measuring the market risk equivalent is the same as the internal model for internal management, but the holding period for the trading account, which is just one day for internal management purposes, is set at 10 business days in conformity with capital adequacy regulations. 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 capital adequacy regulations, when economic value calculated*1 under a certain interest rate fluctuation scenario*2 declines by more than 20% of the sum of Tier I capital (core capital) and Tier II capital (supplementary 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 the broadly defined capital (Tier I capital + Tier II capital). As indicated by the table on page 499, our outlier ratio (on a consolidated basis) was 0.4% as of March 31, 2012, 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 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.

*2 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.

5. Operational Risk

Internal Risk Management Framework

Operational risk is defined as the "risk of losses arising from inappropriate business processes, the activities of executives or employees, computer systems as well as external incidents." In our case, business processing risk, information security risk, compliance risk, human resource risk, event risk and reputational risk are included.

(1) Operational Risk Management Policy

The primary objective in operational risk management is to prevent such risk from occurring. We continuously carry out activities to enhance our staff's administrative capabilities and the quality of our services, in addition to the development of various rules and regulations and their strict implementation, and the enhancement of awareness of risk prevention through education and dissemination. It is our basic policy to build the internal risk management framework and strengthen its operation so that we can respond promptly and contain damage to a minimum, if by chance an accident does occur.

From the viewpoint of building an effective operational risk management framework, we have developed separate frameworks for management of risks in six subcategories that constitute operational risk as well as a comprehensive framework for managing operational risk through the monitoring of the six other frameworks.

1) Business Processing Risk

This is the risk of incurring losses arising from executives or employees neglecting to engage in proper business activities, or other incidents such as accident or fraud.

2) Information Security Risk

This is the risk of incurring losses, owing to factors such as improper management of information of our clients and classified information of the company, system failure or inappropriate response at the time of system failure, improper management of system development projects, etc.

3) Compliance Risk

This is the risk of incurring losses for reasons such as penalties, claims or lawsuits arising from a lack of compliance with laws and regulations in Japan and abroad, or an inability to complete transactions due to contractual impediments including the lack of necessary provisions or lack of legal capacity by the transaction counterparty.

4) Human Resource Risk

This is the risk of incurring losses due to issues such as unequal or unfair management of personnel (including issues related to compensation, benefits and release from employment),and harassment.

5) Event Risk

This is the risk of incurring losses arising from extraordinary situations such as natural disasters, war and criminal offenses.

6) Reputational Risk

This is the risk of incurring losses due to a (possible) major impact on business as a result of deterioration in reputation for STB or its subsidiaries, owing to reasons such as mass media reports, rumors or speculation.

(2) Operational Risk Management Framework

1) Board of Directors

The Board of Directors puts the structure in place to develop and improve the operational risk management system, risk processes and various rules and regulations on the basis of the Risk Management Policy laid down by the board. It decides on important matters related to operational risk management activities (Operational Risk Management Plan) adopted on a semiannual basis.

The Board of Directors receives regular reports on the operational risk situation, including the occurrence of accidents and the amount of operational risk, and issues appropriate instructions after assessing the effectiveness of operational risk management.

2) Executive Committee

On the basis of reports on the operational risk management situation, the Executive Committee deliberates the Operational Risk Plan, establishes a committee (Operational Risk Management Committee) concerning operational risk management, determines departments responsible for the management of respective risk subcategories and department(s) responsible for comprehensive management of operational risk, and maintains the proper conditions for operational risk management.

3) Risk Management related Departments

We established risk management related departments which manage risks of each sub-category, and also established the Corporate Risk Management Department which comprehensively manages operational risks. These departments cooperate to appropriately manage and run the operational risk management system.

Risk management related departments collect and assess various data related to risk management for the monitoring of risk profiles, and are also responsible for instructing each business, providing necessary information to the Board of Directors.

• Risk Management related Departments

Risk Category	Risk Management related Department
Operational Risk	Corporate Risk Management Department
Business Processing Risk	Operations Process Planning Department (Personnel Department for internal fraud)
Information Security Risk (system risk, information management)	IT & Business Process Planning Department
Compliance Risk (including legal risk)	Legal and Compliance Department
Human Resource Risk	Personnel Department
Event Risk	Corporate Administration Department
Reputational Risk	Corporate Risk Management Department

4) Internal Audit Department

The Internal Audit Department conducts an internal audit of the adequacy and effectiveness of the risk management framework.

(3) Methods of Operational Risk Management

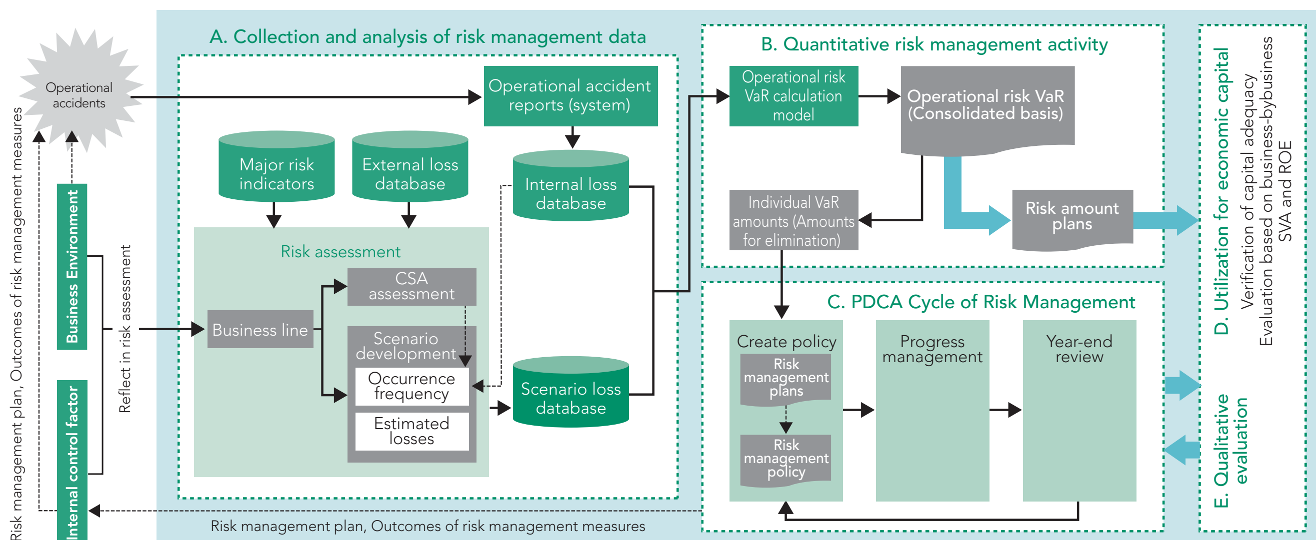
We have in place a framework to collect and analyze reports on operational accidents for the STB Group and implement measures to prevent the recurrence of similar accidents, with the Corporate Risk Management Department, which is responsible for comprehensive management of operational risk, coordinating activities of other risk management related departments.

Each business periodically conducts risk assessment, identifying scenarios of operational loss situations in each operation. It determines the loss amount and loss frequency according to certain rules, based on the operation volume, Control Self Assessment (CSA) results and operational accident occurrence situations.

The Corporate Risk Management Department uses this scenario loss data and internal loss data collected from operation accident reports, and runs Monte Carlo simulations for a certain confidence interval and one year holding period, to calculate the predicted maximum operational risk amount. Operational risk amounts are allocated for each business, and used in our internal management, including risk amount plans and earnings targets, etc.

The operational accident occurrence situation, risk assessment results, operational risk amounts etc. are periodically reported to the Executive Committee and the Board of Directors. We practice highly effective management, by creating and implementing operational accident reoccurrence prevention policies, and risk reduction policies for scenarios with large impacts.

• Overview of Operational Risk Management System



(4) Management Activities regarding Operational Accidents

STB aims at proper client relations, creating policies to prevent reoccurrence, building a database of internal losses, etc. We are improving our reporting and management systems for operational accidents across the entire STB Group.

Operational accidents are registered in our reporting system, based on our “importance criteria,” which was created by considering the scope of the accident’s impacts. These are reported to the departments responsible for supervising businesses and the risk management-related departments, including the Corporate Risk Management Department, which then gives the necessary instructions required for client relations and compliance, and takes actions which contribute to preventing similar accidents from occurring.

For individual accidents such as serious operational errors and system failures, the “Risk Management Subcommittee” established for each subcategory digs deep to find the causes of its occurrence, and verifies policies which will prevent its reoccurrence. It also warns other departments and branches that might encounter similar types of occurrences, to minimize the chances of an accident reoccurring laterally in the company, and to prevent similar accidents from occurring. With respect to operational accidents which have significant impact on the business, the Operational Risk Management Committee, periodically and when necessary, discusses and reports to the Executive Committee on the occurrence situations of accidents, the responses to clients and policies to prevent their reoccurrence. It also does reviews as necessary, to ensure the effectiveness of operational accident management.

(5) Business Processing Risk Management Activities

On top of banking businesses in Japan and overseas, we are engaging in a broad range of trust and asset management businesses, including pension, investment management, real estate and stock transfer agency. As these businesses require a high level of expertise and high-quality clerical work, we have established a department to oversee and provide guidance to business processing operations at each business to facilitate business processing administration to better live up to our responsibilities regarding clients’ entrustments. Each business is also undertaking business processing risk management activities on their own, based on the “Business Risk Management Policy,” which determines the basic items of business processing risk management, and on the “Business Risk Management Plan,” drawn up semiannually by the Board of Directors. The Operations Process

Planning Department, which is a risk management-related department for business processing risk, monitors the situation and provides guidance to each business.

Also, in order to strengthen the internal risk management system, we review authority and rules in business processes, centralize business processes, use on-the-job training, and train our clerical staff to upgrade their skills, and enhance autonomous inspection functions through internal inspections within departments and branches.

In cases where STB outsources an operation, we choose the contractor from a comprehensive perspective, such as service quality and certainty of continuity. Even after an operation is outsourced, we periodically review the contractor's situation, and check that there are no problems. In this way, we work to maintain quality in business processing and prevent leakage of client information.

We also have in place a variety of check-and-balance structures from the standpoint of preventing internal fraud, and provide a range of training programs to make each officer and employee fully aware of the highly public nature of services provided by a trust bank.

(6) Information Security Risk Management Activities

In order to maintain and enhance the safety and reliability of our computer systems, we have adopted the "Information Security Management Policy" ("Information Security Policy"), our basic policy on information security management, as well as specific observance standards, and are working to improve our computer system risk management system. Computer systems have become indispensable as a result of the rapid development of information technology (IT), and there is concern that if our computer system breaks down or an unforeseen disaster occurs, the situation will be severe with far-reaching damage done, including a disruption in services to clients. Thus, in addition to conducting sufficient testing in the development of computer systems and working to prevent the occurrence of breakdowns, we regularly check on the progress in the development of important computer systems. Furthermore, in order to minimize the impact in the event of a system breakdown, we have prepared a double system infrastructure, built a backup system, designed a plan for dealing with emergencies (i.e., a contingency plan), and periodically conducted training for a system breakdown.

We have established a risk management framework under which we monitor the risk situation and, when problems are discovered, follow procedures and deal with the problems promptly. While the spread of the Internet has helped enhance client conveniences, new risks have emerged such as threats to clients' personal information as well as our sensitive internal information as a result of illegal access from the outside. We are working to ensure security by vigilantly

• Standardized Approach

Business Category	Remarks	Business Category
Retail Banking	Deposit-taking and lending operations in the retail market (small and medium-sized businesses and individuals)	**12%**
Commercial Banking	Deposit-taking and lending operations outside the retail market	**15%**
Settlement Services	Settlement-related operations	**18%**
Retail Brokerage	Securities business operations mainly targeting small-lot clients	**12%**
Trading & Sales	Operations related to trading transactions; securities, foreign exchange rate and interest rate business operations mainly for large-lot clients	**18%**
Corporate Finance	Intermediation of corporate M&A; underwriting, sale and acceptance of subscriptions for securities and other operations related to clients' fund raising (excluding operations subject to retail banking and commercial banking)	**18%**
Agency Services	Business operations undertaken as agents for clients	**15%**
Asset Management	Asset management operations for clients	**12%**

watching around the clock for any such attacks and through constant improvements to our computer systems.

Our "Information Security Policy" has provided for the protection of personal information. We have designated information management officers responsible for the protection of clients' personal information, and also set forth criteria that must be observed regarding the collection, utilization, safekeeping/storing and disposal of personal information. In addition, since the announcement in April 2005 of the "Declaration for the Protection of Personal Information," we have redoubled our efforts to protect personal information by further reinforcing the existing information management system and improving various other regulations and systems from the viewpoint of adequate protection and utilization of personal information. Furthermore, we are continuously providing education and information to all of our executives and employees in order to make them act with a greater awareness of the necessity of managing information security on a company-wide basis.

(7) Activities to Manage Other Operational Risks

In the management of event risk, we have built a system that enables us to continue business operations with guidance from an emergency headquarters so that we can execute business operations in an appropriate manner even in the event of natural disasters and other unexpected events. We also have in place a business continuity plan (BCP) and conduct regular training and reviews of the contents in order to secure the effectiveness of the plan. In addition, we have built a human resource risk management framework from the viewpoint of appropriately managing and preventing such problems as ones arising from dissatisfaction with performance evaluation and unfair treatment, and sexual harassment and abuse of authority. Furthermore, for the management of reputational risk, we have built a system to collect information on media reports and rumors about us, and promptly and appropriately respond to them through public relations and investor relations activities from the viewpoint of preventing such reports and rumors from making a significant impact on our business management.

(8) Compliance with Capital Adequacy Regulations
Method Used for Calculation of Operational Risk Amount

Since the end of March 2007, we have been managing operational risk as part of required capital under capital adequacy regulations. We use the Standardized Approach for the calculation of the operational risk amount under capital adequacy regulations. Under this method, we measure the amount of operational risk by first classifying our business operations into eight categories (as listed on the previous page), and then multiplying gross income for each category by different percentages commensurate with risk.

With an eye to the shift to the advanced measurement approaches, we are working to enhance the sophistication of our operational risk management.

6. 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 internal 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 STB 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 STB 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 STB Group are, in principle, held by investors outside the scope of consolidation of SMTH, some are held by SBI Sumishin Net Bank, Ltd., an affiliated company of the STB 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.

However, for equities acquired before the end of September 2004 and held continuously since then, risk-weights under the standardized approach are applicable pending the calculation of credit risk-weighted assets as of June 30, 2014 (the grandfathering rule).

(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 in Japan 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. Guarantors tend to be parent companies of obligors, and we are not relying on any particular guarantors. Since there are usually close relations between obligors and guarantors, the effect of diversification due to guarantees cannot be expected to any large extent. But we at least recognize equating the creditworthiness of guaranteed debt with the creditworthiness of guarantors.

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 invok-

ing 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 applicable 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). Qualifying guarantors and protection providers are entities with sufficient creditworthiness as represented by a credit rating higher than a prescribed level, etc. 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 STB 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.

While in principle we treat principal or notional principal in contracted market trades as credit equivalents, we cal-

culate credit equivalents 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. 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 manage credit lines in an appropriate manner.

Compensation Disclosure Data:

The Former Sumitomo Trust and Banking Co., Ltd.

1. Development Status of Organizational Structures Concerning Compensation for Applicable Officers and Employees within the STB 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 STB, but exclude external auditors. STB has no external directors at present.

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

Of STB'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 STB 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 STB Group's management, namely Sumishin Panasonic Financial Services 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 STB or its significant consolidated subsidiaries. Such a threshold amount is set at ¥40 million within the STB 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 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 STB, the STB 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

STB 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 the STB Group is payable, subject to the policies established primarily by the Boards of Directors and others of STB and its significant consolidated subsidiaries. According to such policies, compensation systems are designed by human resources departments of STB and its significant consolidated subsidiaries, independent of the business promotion depart-

ments 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 STB 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 STB.

2. Adequacy Evaluation of Design and Operation of the Compensation System for Applicable Officers and Employees of STB

(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 ¥50 million per month for directors, and ¥10 million per month for corporate auditors, apart from a ¥10 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 STB 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 STB 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 STB'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 STB Group's financial standing and other considerations.

• Total Amount of Compensation for Applicable Officers and Employees within the STB Group (From April 1, 2011 to March 31, 2012)

Category	Headcount	Millions of Yen						
		Total amount of compensation	Total amount of fixed compensation			Total amount of variable compensation		Retirement benefits
				Basic Compensation	Compensation as stock option		Bonus	
Directors (excluding External Directors)	11	492	429	428	1	63	63	—
Corporate Auditors (excluding External Auditors)	3	84	84	84	—	—	—	—
Applicable employees, etc.	2	87	48	48	—	34	34	5

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