

# Japan Trustee Services Bank, Ltd.

## Annual Review 2018



Japan Trustee Services Bank, Ltd.

# Customer Satisfaction Support Service

—To be the best partner for customers and for society—

## Corporate Data

(As of June 30, 2018)

Corporate name	Japan Trustee Services Bank, Ltd.
Establishment	June 20, 2000
Commencement of operations	July 25, 2000
Head Office address	Harumi Island Triton Square Tower Y, 8-11, Harumi 1-chome, Chuo-ku, Tokyo 104-6107
Branch network	Head Office only
Agents	Bank agents: None Trust bank agents: 1
Capital	¥51.0 billion
Balance of assets in trust	¥282,074.4 billion (as of March 31, 2018)
Shareholders' equity ratio	31.70% (as of March 31, 2018)

## Long-Term Credit Ratings

(As of June 30, 2018)

Japan Credit Rating Agency, Ltd.	<b>AA+</b>
Standard & Poor's Financial Services LLC	<b>A-</b>

Please be noted this English version is for your reference purposes only; the original in Japanese prevails if any discrepancies are found.

Japan Trustee Services Bank, Ltd.



# Table of Contents

■ Profile	
■ Management Message.....	P2
■ Management Vision and Commitment.....	P3
■ Corporate Data .....	P4
■ Corporate Governance Framework.....	P6
■ Key Indicators of Management Condition .....	P7
■ Review of Business Performance.....	P8
■ Business Integration with Trust & Custody Services Bank .....	P9
■ Medium-Term Business Strategies.....	P10
■ Initiatives to Improve Services.....	P11
Systems and Measures to Reflect Customer Opinions in Our Services	
Initiatives for Enhancing Information Provision Services	
Initiatives to Meet Various Needs	
• More Collaborative STP in Standing Settlement Instructions (SSI): Introduction of Omgeo ALERT/GC Direct from DTCC	
• Back Office Outsourcing Services for Asset Management Companies	
• Handling of OTC Derivative Transactions	
• Foreign Investment Trust Transactions Using the Fund Settlement Service	
• Participation in Custody Services for Foreign Stock Certificates, etc.	
• Securities Lending Services	
• Domestic Stock Proxy Voting Business	
• Domestic Stock Transition Management	
CSR Initiatives	
■ Processing Systems Infrastructure.....	P27
Initiatives for Improving Processing Quality	
Active Initiatives for Reforming Securities Settlement and Other Functions	
Overall Composition of Company Systems	
Systems Development and Operations Management Framework	
Information Security Management	
■ Internal Management Systems .....	P33
Risk Management Systems	
Compliance Systems	
Crisis Management Systems (Business Continuity Plans)	
Internal Auditing Systems	
■ Financial Section.....	P39



# Management Message

I would like to express my thanks to you for your continuing patronage of Japan Trustee Services Bank, Ltd. (JTSB).

This Annual Review includes information on our performance and business operations for the fiscal year ended March 31, 2018, as well as other topics pertaining to JTSB. We hope you will find it useful to better understanding our business activities.

During fiscal 2017, we implemented measures to address the various issues in our Comprehensive Management Plan, and steadily moved forward with initiatives aimed at enhancing the sophistication and diversity of our asset administration services.

Moreover, to further strengthen the governance of our IT systems and services, we took steps to improve the management of our development processes and our systems development capabilities in the domains of planning, development, operations, and fundamental technologies.

To raise the level of customer satisfaction (CS) in our investment trust securities processing services, we worked to respond to the frequently changing requirements of our customers with carefully tailored services based on information we gather internally and externally. These information-gathering activities are focused in our Customer Services Center (Investment Trust), which we established in our Investment Trust Department, and in our Customer Services Center, within the Business Promotion Department.

With the increasing importance of risk management and legal compliance, JTSB is strengthening its risk management structure, focusing particularly on information security and other aspects of operational risk. We are also taking steps to enhance our compliance posture through training programs and other measures to further raise awareness of compliance issues among all members.

With the understanding and support of our customers for these various initiatives, the balance of assets entrusted to JTSB at the end of fiscal 2018 stood at over ¥282 trillion.

The business environment for asset administration is changing considerably as a result of reforms to settlement systems, and a greater need to adapt to the expanding range of investments to include emerging markets and non-traditional targets such as derivatives and alternative investments, as well as to minimize operational and settlement risk. JTSB will continue striving to provide a reliable, high-quality service.

As was announced earlier this year, in October 2018, JTSB and Trust & Custody Services Bank, Ltd. (TCSB) plan to establish, by means of a joint share transfer, JTC Holdings, Ltd. (JTC Holdings). JTC Holdings will be an intermediate holding company that will be the wholly owning parent company of both banks, thus becoming Japan's largest trust bank specializing in administration of securities and other assets. Plans for the business integration are now being formalized, as JTSB prepares to enter a new stage of growth.

Going forward, to ensure the sound development of the asset management and administration business, we will make a concerted effort to give first priority to the standpoint of customers, comply with all laws and regulations, and consistently act with responsibility and integrity.

Thank you for your continued support.

**Yoshikazu Tanaka**  
Representative Director and President  
July 2018

# Management Vision and Commitment

## Management Vision

Through our asset administration services, we will contribute to the development of companies and society as we support the affluence of the public.

- Increase customer satisfaction as a “good partner with our customers”
- Contribute to society as an “indispensable presence”
- Increase employee satisfaction as a “company where working is fulfilling”

## The Company We Aim to Become

We will work to secure unshakable confidence, and, as a group of professional asset administrators performing a public service for society, we will endeavor to build a presence and become generally recognized as “the bank specializing in asset administration.”

## Guidelines for Action

As we administer our customers’ assets, we will follow all laws and internal rules as well as act with responsibility and sincerity at all times.

- We will respond with a sense of urgency to our customers’ requests with proper management and accurate processing operations.
- We will continue to make reforms at our own initiative to provide higher-quality services even more efficiently.
- We will aim to create a workplace culture that makes work brighter and easier through a combination of leadership and cooperativeness.

# Corporate Data

## ● Lines of Business

JTSB's lines of business are securities processing services related to pension trusts, individually managed specified money trusts, specified money trusts (comprehensive), securities investment trusts, administrated and managed securities trusts, retirement benefit trusts, and other trusts; management of cash; lending; foreign currency exchange transactions; account administration institution functions; back office outsourcing services for asset management companies; and other trustee and banking services related to asset administration.

## ● History

JTSB was established on June 20, 2000, as Japan's first trust bank specializing in the asset administration business, by Daiwa Bank, Limited (currently, Resona Bank, Limited) and Sumitomo Trust & Banking Co., Ltd. (currently, Sumitomo Mitsui Trust Bank, Limited) and commenced operations on July 25, 2000. In October of the same year, Sumitomo Trust & Banking transferred its trust and certain other assets to JTSB, and, in June 2001, the transfer of the trust and certain other assets of the then-Daiwa Bank to JTSB was completed. In September 2002, the Mitsui Trust Financial Group (currently, Sumitomo Mitsui Trust Holdings) invested in JTSB, and, in September 2003, the transfer of the trust and certain other assets of the then-Mitsui Asset Trust Bank, Limited (currently, Sumitomo Mitsui Trust Bank, Limited) was completed. As of March 31, 2018, total assets entrusted to JTSB exceeded ¥282 trillion.

## ● Shareholders

As of March 31, 2018,

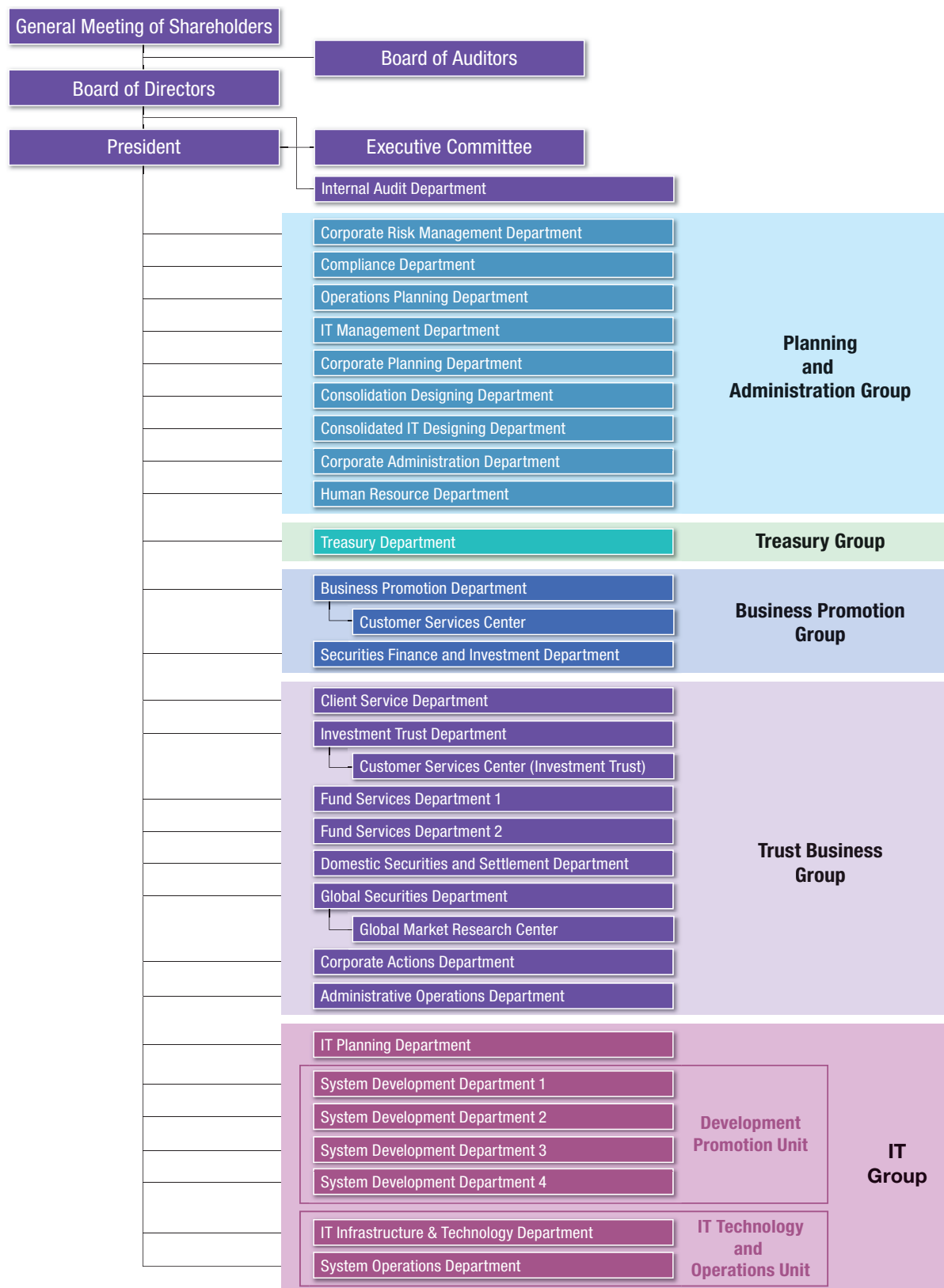
- The number of shares JTSB was authorized to issue was  
Common shares: 3,000 thousand  
Preferred shares: 1,000 thousand  
The total number of shares issued was 1,020 thousand.
- The number of shareholders was two.
- Major shareholders: (Refer to the table below)
- Purchase, disposal, and holdings of own shares: None

Major shareholders	Shareholdings	
	Shares held	Percentage of ownership
Sumitomo Mitsui Trust Holdings	680 thousand	66.66%
Resona Bank	340 thousand	33.33%

## ● Senior Management (As of July 1, 2018)

Title	Name	Principal Responsibilities
Representative Director and President	Yoshikazu Tanaka	
Representative Director and Deputy President	Hiroshi Takahashi	Officer in charge of Operation Planning Department, Corporate Administration Department, Human Resource Department, Business Promotion Department
Representative Director and Deputy President	Masatoshi Noguchi	In charge of Corporate Risk Management Department, Compliance Department, IT Management Department
Managing Director	Kenichi Okazaki	Officer in charge of IT Planning Department, System Development Department 1, System Development Department 2, System Development Department 3, System Development Department 4, IT Infrastructure & Technology Department, System Operations Department Vice Officer in charge of Consolidated IT Designing Department
Managing Director	Takashi Okuda	Officer in charge of Corporate Planning Department, Client Service Department, Investment Trust Department, and Administrative Operations Department
Managing Director	Takahiro Ishi	Director in charge of Treasury Department, Securities Finance and Investment Department, Domestic Securities and Settlement Department, Global Securities Department, Corporate Actions Department Vice Officer in charge of IT Planning Department
Auditor (Standing)	Tatsuya Tsuboi	
Auditor (Standing)	Akira Kobayashi	
Auditor	Hiroshi Misawa	
Executive Officer	Naoyuki Ohashi	Officer in charge of Internal Audit Department General Manager, Internal Audit Department
Executive Officer	Masato Tanabe	General Manager, Operation Planning Department
Executive Officer	Masaaki Tagawa	Officer in charge of Consolidation Designing Department, Consolidated IT Designing Department General Manager, Consolidation Designing Department
Executive Officer	Yoshito Takahashi	Officer in charge of Fund Services Department 1, Fund Services Department 2
Executive Officer	Yasushi Kasahara	General Manager, Investment Trust Department
Executive Officer	Toshiyuki Hioki	General Manager, Domestic Securities and Settlement Department

● **Organization Chart** (As of June 30, 2018)



# Corporate Governance Framework

## ● Business Decision Making and Roles of the Board of Directors

The Board of Directors makes decisions on important management matters and supervises the directors in the conduct of their duties. An Executive Committee has been established under the Board of Directors. This committee is responsible for deliberation, as part of the decision-making process in the conduct of business operations, regarding basic management policies and important individual items. The committee also works to share information and confirm the status of the execution of business activities. Its responsibilities also include reporting important information to the Board of Directors. The Executive Committee comprises all the directors and executive officers, and auditors may attend meetings of this committee and express their opinions.

In addition, as Japan Trustee Services Bank is a joint venture company, decisions on important matters are made in consultation with its two shareholders.

## ● Roles of the Board of Auditors

The Board of Auditors comprises all the auditors, and, as necessary, the auditors and the Board of Auditors may express their opinions to the directors. In addition, following the audit policies established by the Board of Auditors, the members of the Board of Auditors may attend meetings of the Board of Directors and the Executive Committee as well as other important meetings, monitor the conduct of duties by the Directors and Executive Officers, and, as necessary, express their opinions and make various kinds of suggestions.

The Internal Audit Department exchanges opinions with participants in periodic meetings and transmits the advice and other points from the Auditors. Also, as necessary, this department exchanges information as called for by the occasion.

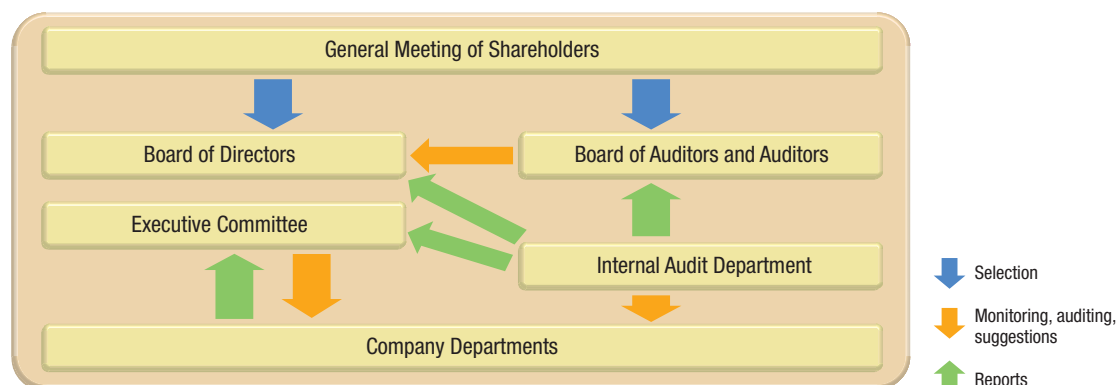
The Auditors are responsible for reviewing important documents, including draft proposals; conducting various kinds of hearings and fact-finding activities; on-site research; and other activities to gather information for their day-to-day auditing activities. In addition, the Auditors hold periodic meetings with the independent auditing company, receive reports on the status of auditing activities and the results of audits, and exchange opinions. The Auditors also work to preserve the independence of the independent auditing company and monitor auditing activities to ensure their proper conduct.

Please note that audit reports are prepared on the status and results of auditing activities, and reports are made regarding the reports of the Board of Auditors to the Board of Directors. Moreover, the Auditors meet periodically with Representative Directors to confirm management policies as well as exchange views regarding the issues facing the Company and other matters.

## ● Relationship with Internal Auditing

JTSB has established the Internal Audit Department, an organization independent of business departments that conducts audits of JTSB's business activities. Auditors examine the suitability and effectiveness of compliance, risk management, and other internal controls within business departments, and provide guidance and advice based on their findings.

The results of internal audits are reported immediately to the bank directors and auditors, and periodically to the Executive Committee and the Board of Directors.





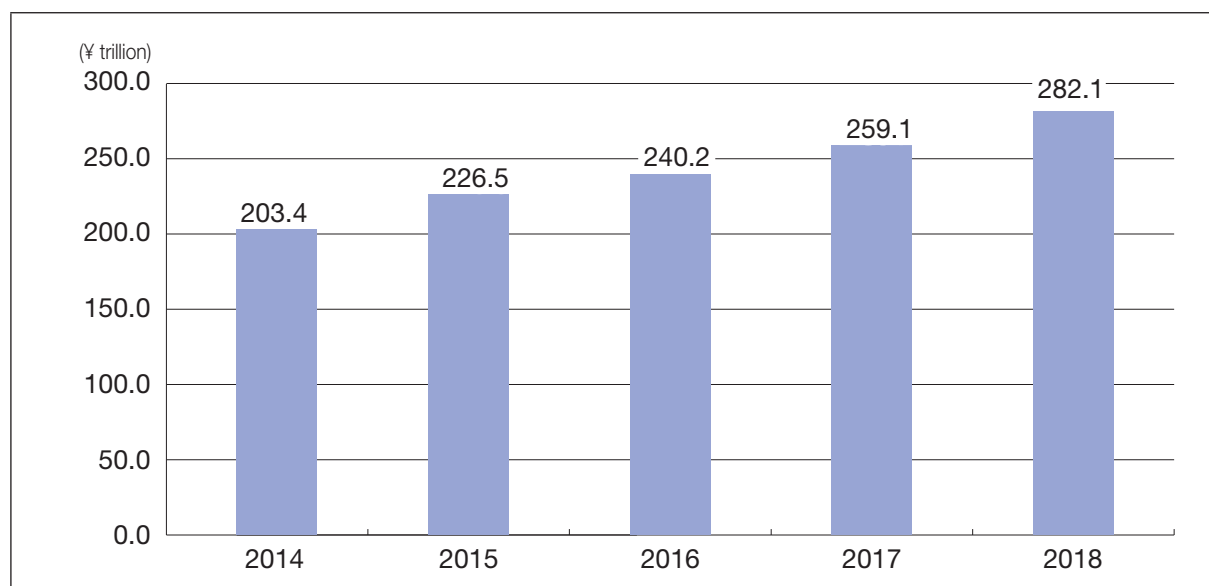
# Key Indicators of Management Condition

(¥ million)

Years ended March 31	2014	2015	2016	2017	2018
Ordinary income	27,344	27,602	27,891	26,559	27,436
Ordinary profit	740	788	570	576	1,199
Net income	429	460	348	390	480
Paid-in capital (Total number of shares issued)	51,000 (1,020 thousand)	51,000 (1,020 thousand)	51,000 (1,020 thousand)	51,000 (1,020 thousand)	51,000 (1,020 thousand)
Net assets	58,266	58,700	58,981	59,156	59,435
Total assets	1,728,321	2,468,835	6,901,302	13,201,888	13,835,275
Deposits	35,131	32,503	141,305	6,807,134	7,840,589
Loans	116,625	—	772,785	49,127	184,058
Securities	136,532	146,042	95,419	45,225	337
Capital adequacy ratio (Domestic standard)	40.90%	38.32%	36.92%	33.41%	31.70%
Dividend payout ratio	40.41%	39.88%	40.95%	40.44%	40.31%
Number of employees	926	922	962	1,016	1,052
Trust fees	21,345	20,657	20,036	20,243	20,577
Trust account loans	—	—	—	—	—
Trust account securities	77,707,294	84,888,357	93,515,727	100,693,580	109,179,760
Total entrusted assets	203,367,513	226,512,594	240,176,012	259,118,905	282,074,441

Note: The number of employees includes personnel seconded to JTSB from Resona Bank, Sumitomo Mitsui Trust Bank, and other companies (a total of 213 in 2014, 197 in 2015, 216 in 2016, 216 in 2017, and 204 in 2018).

## (Supplementary Information: Trends in Total Entrusted Assets)



# Review of Business Performance

## ● Review of Performance and Results

JTSB aims to be the foremost bank for asset administration, universally recognized as a professional asset administration group fulfilling a role as a public institution with assured, unwavering confidence. We have pursued measures centered on improving customer-centered operations, focusing on the areas of strengthening human asset development, increasing productivity, and enhancing service quality.

To strengthen human asset development and increase productivity, JTSB is pursuing organization-wide measures for greater responsiveness to customer needs, including strengthening lateral ties between departments, boosting operational efficiency, and enhancing the capabilities of front-line systems.

To enhance service quality, investment trust operations are handled through the Customer Services Center (Investment Trust) in order to meet customer needs accurately and promptly. JTSB is also working to improve customer service in areas other than investment trust operations by expanding the responsiveness of customer service and information center operations.

For crisis management measures, JTSB conducts regular disaster response trainings to verify the effectiveness of its business continuity plans. We also strengthen our crisis response capabilities to handle more widespread emergency situations.

Amid the increasing importance of risk management and legal compliance, JTSB is strengthening its risk management structure, focusing particularly on information security and other aspects of operational risk. We are also taking steps to enhance our compliance posture through training programs and other measures to foster a greater awareness of compliance issues among all members.

## ● Profit and Loss

Ordinary income rose ¥876 million from the previous fiscal year, to ¥27,436 million, due mainly to increases in trust fees and fees and commissions. The principal components of ordinary income were ¥20,577 million in trust fees, ¥9,208 million in fees and commissions, and ¥2,420 million in interest loss caused by negative interest rates.

Ordinary expenses rose ¥253 million, to ¥26,236 million, mainly due to an increase in general and administrative expenses. The principal components of ordinary expenses were ¥25,867 million in general and administrative expenses, and ¥290 million in fees and commissions expenses.

As a result, ordinary profit increased ¥623 million, to ¥1,199 million, and net income increased ¥89 million, to ¥480 million.

## ● Assets and Liabilities

Total assets at the end of the subject fiscal year rose ¥633,387 million, to ¥13,835,275 million, due mainly to an increase in cash and due from banks. The principal components were ¥13,177,699 million in cash and due from banks, ¥350,000 million in call loans, and ¥184,058 million in loans and bills discounted.

Total liabilities increased ¥633,108 million, to ¥13,775,840 million, due mainly to an increase in deposits. The principal components were ¥7,840,589 million in deposits, and ¥5,898,261 million in borrowed money from trust account.

The capital adequacy ratio (domestic standard) was 31.70%.

## ● Entrusted Assets

Total assets entrusted to JTSB as of March 31, 2018, rose ¥22,955,536 million over the end of the previous fiscal year and amounted to ¥282,074,441 million.

## ● Issues to Be Addressed

Through strengthening IT governance, improving the efficiency of operations, offering high-value-added services, and maintaining a high level of reliability through substantial improvements in risk management and internal controls, we will work to establish a strong reputation as a good partner of our customers and strengthen its competitiveness.

# Business Integration with Trust & Custody Services Bank

JTSB and Trust & Custody Services Bank, Ltd. (TCSB) have decided to integrate their businesses under JTC Holdings, Ltd. (JTC Holdings), a holding company to be newly established by means of a joint share transfer. The merger will create Japan's leading trust bank specializing in administration of securities and other assets, allowing it to meet a wide range of customer needs.

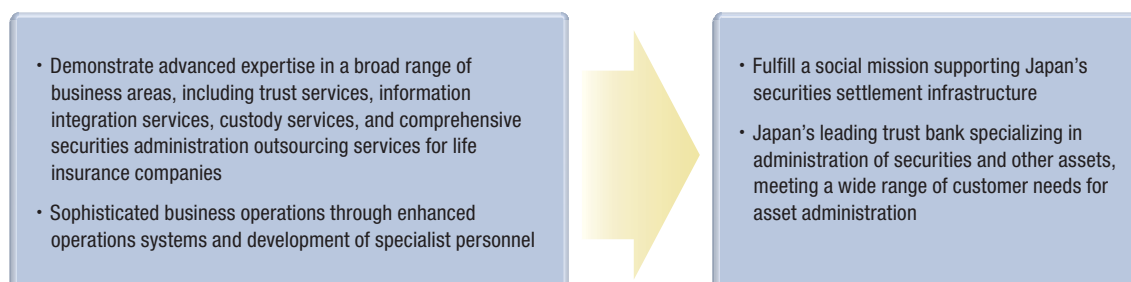
The business integration will create a bank holding company group specializing in asset administration, with around ¥700 trillion in assets under custody (of which, more ¥400 trillion will be trust assets).

The new group will consolidate the management resources and expertise of both banks in order to support further development of Japan's securities settlement market, and a more advanced investment chain.

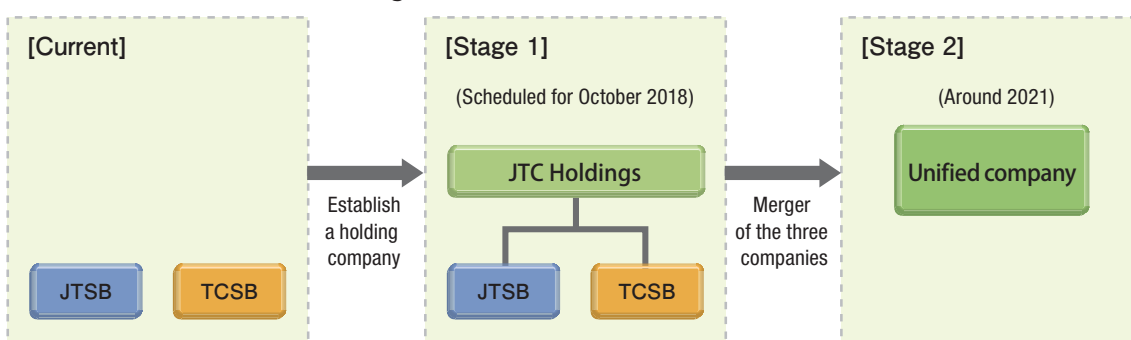
## ■ Aims of the Business Integration



## ■ Vision for the New Group

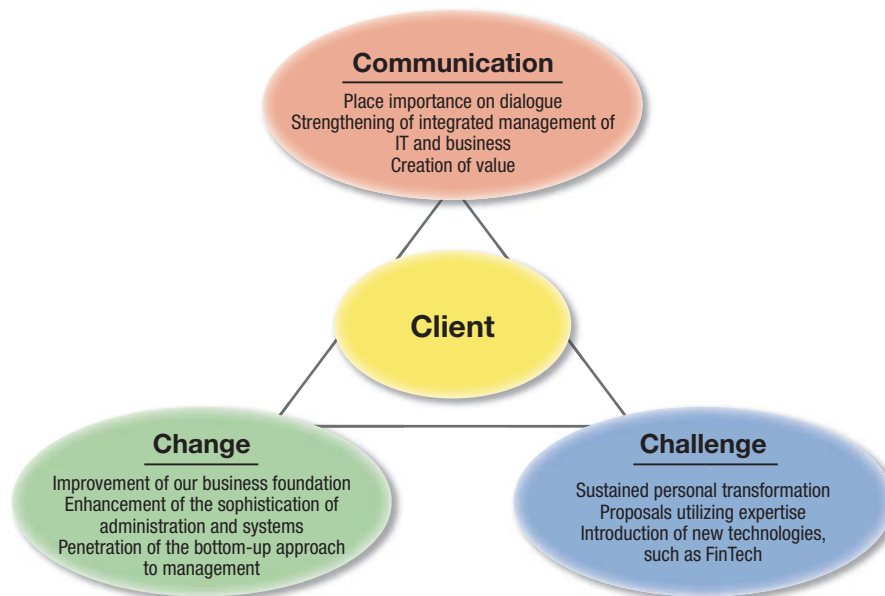


## ■ Structure of the Business Integration



\* The schedule is subject to change pending discussion and agreement between the relevant parties should discussions become necessary regarding the necessity of procedures relating to the joint share transfer or other reasons.

# Medium-Term Business Strategies



[Medium-Term Business Strategies slogan]

Foresee Success with 4Cs

“Foresee future success with our clients through communication, change, and challenge”

## ● Medium-Term Business Strategies (Fiscal 2018 - Fiscal 2020)

JTSB has positioned the three years from fiscal 2018 as “three years in which we will anticipate the future and improve our business foundation” and has formulated a new Medium-Term Business Strategies.

We have presented the 4Cs centered on our clients (clients, communication, change, and challenge) as the vision of the Medium-Term Business Strategies, and we are strengthening communication, in particular dialogue with clients, undergoing transformations, namely streamlining and increasing the security of the existing businesses, and providing new solutions that utilize expertise even more.

## ● The Specific Themes of the Medium-Term Business Strategies

- Strengthening human resources
- Improving service quality
- Enhance productivity

Over the three years of the Medium-Term Business Strategies, we will implement a plan focused on improving client-centered business management.

We have presented “strengthening human resources development,” “improving service quality,” and “enhance productivity” as the specific themes.

Under the 4Cs Vision for Action, we will endeavor to execute the specific themes and improve the asset administration business.



# Initiatives to Improve Services

- Systems and Measures to Reflect Customer Opinions  
in Our Services..... P12
- Initiatives for Enhancing Information Provision Services ... P14
- Initiatives to Meet Various Needs ..... P18
  - More Collaborative STP in Standing Settlement Instructions (SSI):  
Introduction of Omgeo ALERT/GC Direct from DTCC
  - Back Office Outsourcing Services for Asset Management  
Companies
  - Handling of OTC Derivative Transactions
  - Foreign Investment Trust Transactions Using  
the Fund Settlement Service
  - Participation in Custody Services for Foreign Stock  
Certificates, etc.
  - Securities Lending Services
  - Domestic Stock Proxy Voting Business
  - Domestic Stock Transition Management
- CSR Initiatives..... P25

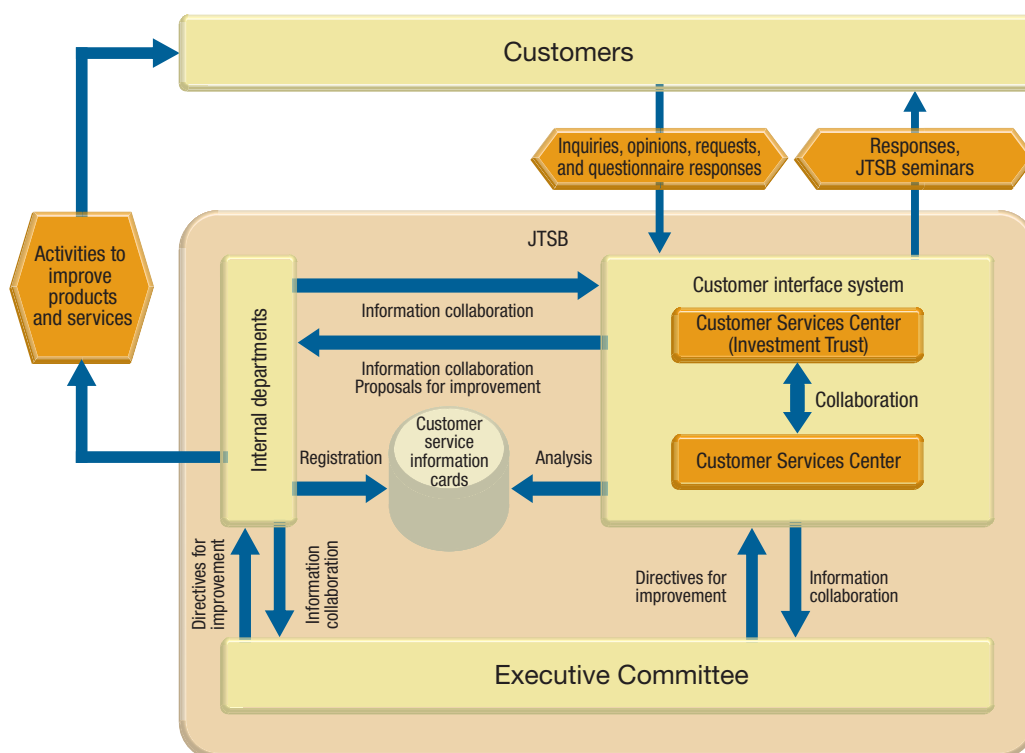


## ■ Systems and Measures to Reflect Customer Opinions in Our Services

JTSB, as “a good partner with clients,” has made increasing customer satisfaction one of the objectives in its Corporate Philosophy.

For JTSB, customer satisfaction means providing services for the customers we deal with directly and, beyond them, for the affluent lifestyles of their customers—who are subscribers, investors, and beneficiaries—by administering properly the valuable assets that our customers have entrusted to us.

To attain our management objectives, we have adopted the following guidelines for action: “Respond to customers by providing proper supervision and accurate processing services with a sense of urgency” and “Continuing at all times to innovate and change to offer even higher quality and services efficiently.” Each and every member of management and staff in their respective positions is endeavoring on a daily basis to be helpful and become “a good partner with clients.”



### ● Customer Interface System

JTSB has provided contact points to receive and respond to customer inquiries, opinions, and requests. For investment trust customers, JTSB’s Customer Services Center (Investment Trust) serves this function, and, for clients in the non-investment trust areas, such as specified money trusts, the Customer Services Center acts as the point of contact.

JTSB’s organization is divided into fund management, domestic securities administration, foreign security administration, settlements, and other departments. For one financial instrument, a number of departments may become involved in a complex fashion. But the Customer Services Center (Investment Trust) and the Customer Services Center, which are the contact points with customers, are working in close liaison with JTSB’s internal departments, and they develop and implement various measures to meet customer needs. This system enables JTSB to respond promptly and accurately to customer inquiries, opinions, and requests.

## ● Questionnaire Surveys of Investment Trust Management and Investment Advisory Companies

As a good partner with clients and to offer its customers even better services and products, each year, JTSB conducts a questionnaire survey about its services and products among investment trust management companies and investment advisory companies. JTSB treats these opinions and requests as valuable hints and uses them as inputs into considering service and product improvements. The outcomes of consideration of the survey results are reported at seminars and other meetings several times a year.

## ● Customer Service Information Cards

To use the customer opinions and the awareness we gain from them to improve our services and products, JTSB introduced customer service information cards as an information management tool in 2006. These cards are registered with the relevant internal departments, and the information they contain is also recorded. Thus far, approximately 9,600 information cards have been accumulated, and the department in charge draws on this information to provide guidance to the relevant departments and make suggestions regarding improvements in services and products.

## ● JTSB Seminars

JTSB holds seminars several times each year for investment trust management and investment advisory companies. During fiscal 2017, a total of 117 participants from 92 companies attended seminars. Going forward, to attain our aim of being a good partner with clients and offering them value added, we will continue to offer accurate and timely information to our customers.

## Examples of Seminar Themes

### ***Seminar for Investment Trust Management and Investment Advisory Companies Held on August 9, 2017***

- (1) About the latest information pertaining to investment in China
- (2) Latest information on investment in Pakistan
- (3) Improvement activities report in JTSB's investment trust business
- (4) About the latest trends in domestic and foreign systems, etc.
- (5) Report on the improvement of customer service on foreign securities
- (6) Report on the improvement of services (across the board) for investment advisory companies
- (7) Process flow for goods transfers

### ***Seminars for Investment Trust Management and Investment Advisory Companies Held on September 6, and September 7, 2017***

#### ***"Briefing Session on the Application of Margin Requirements for US-specific Mortgage-backed Securities Transactions (FINRA 4210)"***

- (1) Basic contract scheme
- (2) Account setup process and necessary documentation
- (3) JTSB's policy on concluding MSFTAs
- (4) Presumed administrative process, JTSB's standard service, other points for attention regarding administrative processes

## ■ Initiatives for Enhancing Information Provision Services

In view of the importance of providing information in the asset administration business, JTSB established its Customer Services Center and Global Market Research Center and is implementing initiatives to enhance the sophistication of its information provision services.

### ① Online Information Provision Services

Along with the rapid advances in Internet-based services and information delivery platforms, JTSB's Customer Services Center offers various services and content as well as timely news to customers and is expanding the methods of delivery and diversity of information it provides. The aim of these services is to provide information useful to customers entrusting assets and investment advisers even more quickly and at a more-sophisticated level.

For investment trust managers, JTSB provides data, such as confirmations of completed foreign securities transactions and information on interest and dividends, that can be input directly into their accounting systems.

Also, as part of activities to improve user support services, JTSB has set up separate dedicated portal sites for customers entrusting assets and investment advisers. These sites present easy-to-understand information on how to read reports as well as answers to frequently asked questions.

#### ■ Portal Sites

For Customers Entrusting Assets: *Online 2.0*



For Investment Advisory Companies: *JTSB Web Portal*

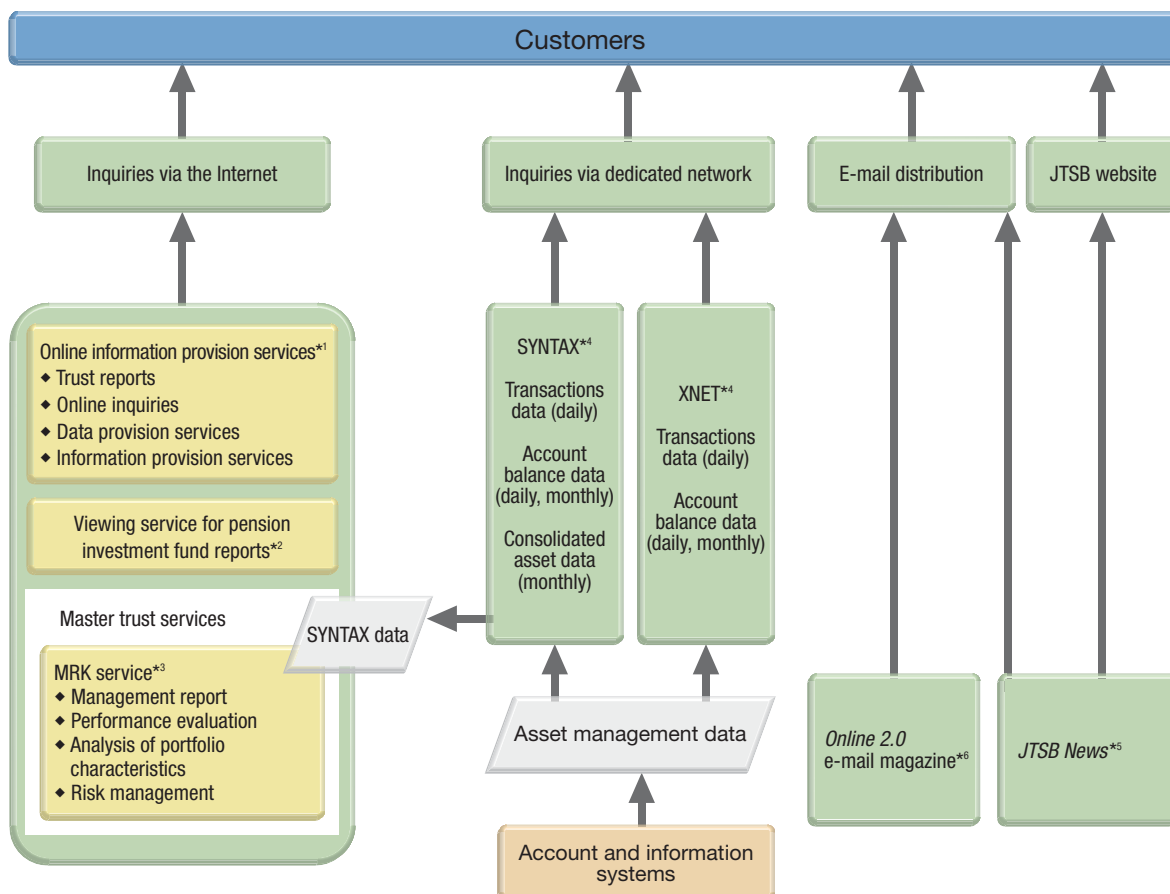


For measures to enhance the convenience of online services, JTSB has responded to numerous customer requests and begun offering services earlier in the day (starting at 8:00 a.m.), and improved the functionality of its trust report batch inquiry system (added the ability to access information with multiple base dates). Furthermore, in February 2017, we added the function for batch download of all of the report forms (in PDF format) for the investment advisory companies.

To respond to customer needs, JTSB has formed an in-house working group for information delivery, and it is proceeding with the consideration of various measures to move forward actively to expand its functions and services.



## ● Information Provision Services: Functions



\*1: Online information provision services:

Linked to account and information systems, these information services supply customers entrusting assets and fund managers with content that includes various types of report forms, account balance data, and other information via the Internet. Report forms are supplied in Excel and CSV formats, making processing easy. (Provision of PDF report forms to investment advisory companies)

A "quick batch inquiry function" has been added, allowing users to access batch information on multiple funds and multiple report forms.

A "pension-related reports function" has been added, providing users with online access to the "Current Asset Value Report" for use in calculating retirement benefit reserves, as well as the "Monthly Income and Expense Statement for Pension Assets" and the "Monthly Increase and Decrease Statement for Pension Assets" with details on changes in pension asset principal on a monthly basis.

\*2: Viewing service for pension investment fund reports:

This service allows customers entrusting pension investment funds to view via the Web data that follows the disclosure requirements of the revised Trust Business Law.

\*3: Master record keeping (MRK) service:

This service allows customers entrusting assets to access reports on their assets from a centralized source via the Internet. SYNTAX data is gathered from trust banks and insurance companies, and data from multiple institutions is put into various standard forms.

\*4: SYNTAX, XNET:

This is a data disclosure service that provides information on asset management electronically via a dedicated network. Data formats are prepared by the original disclosers of the information, namely, Nomura Research Institute and XNET.

\*5: JTSB News:

This newsletter is delivered via e-mail and is available on the JTSB website. It contains overseas market systems and taxation, dates of bank holidays, introduction of new products and other items, results of research and analysis, special features on specific topics, and information on domestic takeover bids and other corporate actions.

\*6: Online 2.0 e-mail magazine:

This information service sends out e-mails on topics that include notifications of newly released functions, introductions to convenient services, and answers to frequently asked questions.

## ● Master Trust Service

<MRK service 2 for master record keeping (MRK)>



JTSB consolidates assets allocated over multiple asset administration institutions into centralized reporting to provide a master trust service that is provided through the Internet.

We started providing this service in May 2001, but, in order to meet the diverse analysis needs of our clients arising from the diversification of management techniques in recent years, since October 2016 when the provided report forms were revised, we have been providing report forms that are easier to read and can be used more flexibly.

## ② Global Market Research Center

As part of its initiatives to increase the sophistication of asset administration services, JTSB's Global Market Research Center gathers information and undertakes research and analysis on a range of topics related to foreign securities markets. These include the settlement systems in overseas markets, taxation, dates of bank holidays, and new investment products. This information is made available through the *JTSB News*, and the Global Market Research Center responds to questions regarding the content of *JTSB News*. These information services have won the high acclaim of many customers entrusting assets and fund managers.

Going forward, through stronger collaboration with overseas custodian banks, the center gathers information on the securities exchanges of various countries, central banks, regulatory authorities, industry associations, and media. The center also makes use of local consultants for information and advice on tax and legal matters, and, as necessary, gathers the latest information on legal systems, settlement systems, taxation, and other subjects through the conduct of on-the-spot surveys and research. Through these activities, the center is working to further increase the level of its research and analysis.

## Response to the Diversification in Investment Targets

Investment in foreign securities, along with conventional European and U.S. markets, has in recent years trended toward increased investment in emerging<sup>\*1</sup> markets and frontier<sup>\*2</sup> markets in Asia, South America, the Middle East, and Africa in line with diversification in investment targets. However, the market practices, regulations, taxation, and other aspects of these local markets remain complex. Making an initial investment often requires complicated procedures, such as an investment authorization application to local authorities, and related costs. After the investment is made, investors also need to remain aware of changes in market regulations, taxation systems, and other developments. JTSB makes full use of information offered by global custodians, local central banks, tax consultants, and other sources to gather data and conduct research and analysis on various markets. JTSB is continuing to take initiatives to further improve and increase the sophistication of its asset administration activities in response to the special features and variability of individual markets.

In addition to these activities, JTSB provides *Detailed Information by Overseas Market*, which will support customers to make investments in overseas markets as needed. Along with information directly related to asset management, JTSB offers information systematically on special features of various markets, mainly emerging and frontier markets, and points for attention, including matters related to asset administration. Regarding markets in developed countries, JTSB selects topics that may have major impact on asset management and practical administrative matters, such as revisions in related systems, taxation, and other matters, and provides coverage of these topics.

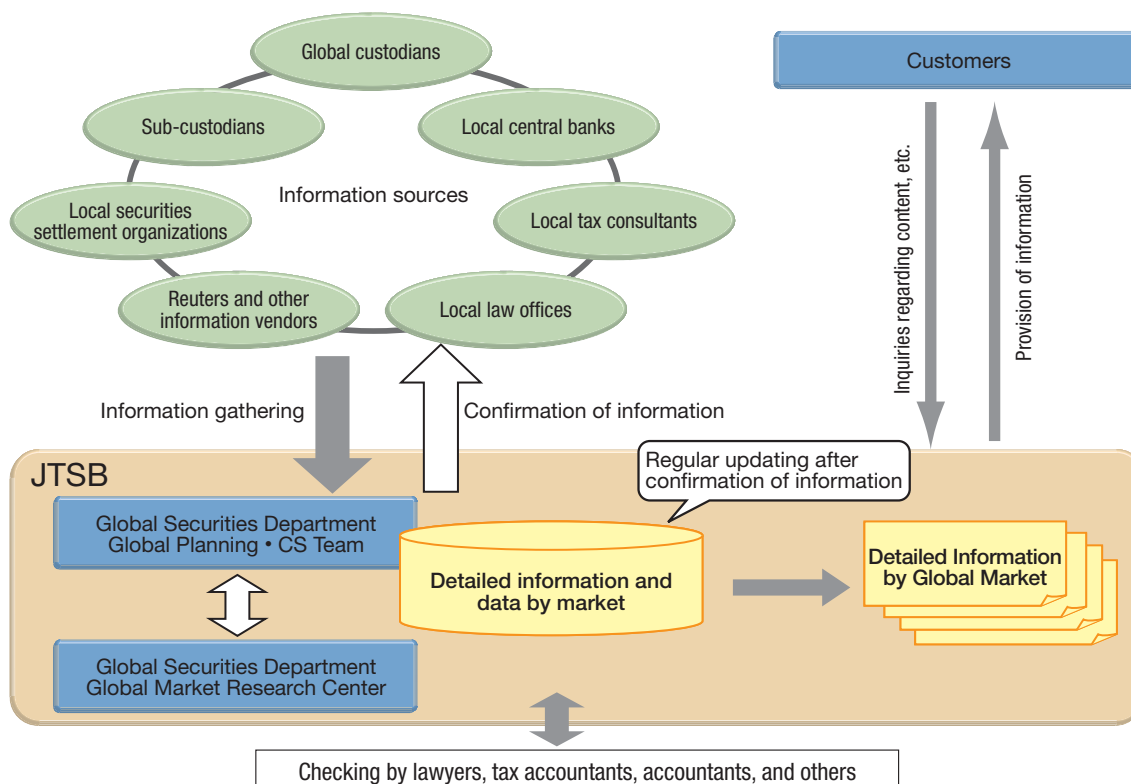
Going forward, JTSB will periodically update the *Detailed Information by Overseas Market* and provide accurate and timely information on asset management that will be useful to customers.

\*1: Emerging markets: Securities markets in Asia, South America, Eastern Europe, and elsewhere that are still in the economic growth stage.

Since growth rates are high, investors can expect opportunities for a higher return than in the developed countries, but since there are various regulations regarding investment and these countries are influenced by trends in the industrialized countries as well as political and financial factors in their own markets, investment involves some risk.

\*2: Frontier markets: Securities markets in developing countries that have not reached the stage of being emerging markets.

### ● Flow of Services Offering Detailed Information by Overseas Market



## ■ More Collaborative STP in Standing Settlement Instructions (SSI): Introduction of Omgeo ALERT/GC Direct from DTCC

JTSB has introduced a new collaborative workflow for asset management companies regarding standing settlement instructions (SSI) for the custody accounts of investment funds (investment trusts and specified money trusts) that trade in foreign stocks and bonds.

Asset management companies receive notifications from the brokers they trade with through SSI data file linkage or data linkage through Omgeo ALERT\* (hereinafter "ALERT"), a service provided by the Depository Trust & Clearing Corporation (hereinafter "DTCC") in the USA. These notifications provide SSI data for the custody accounts on which they collaborate with trust banks.

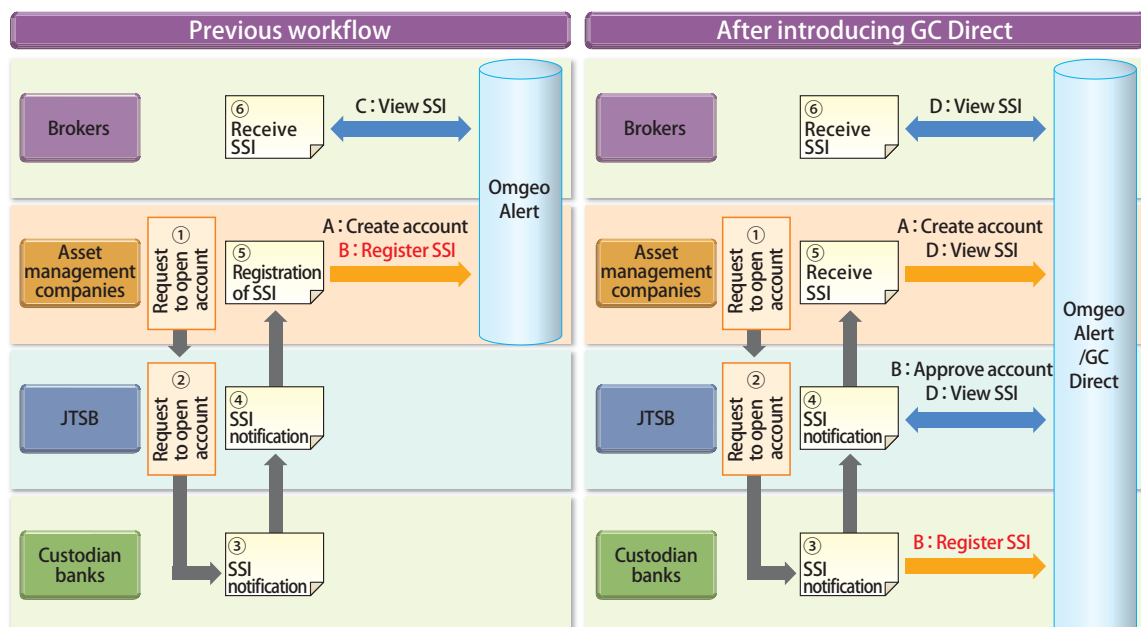
Until now, SSI data has been entered into ALERT by the asset management companies. With DTCC's implementation of ALERT's Global Custodian Direct (hereinafter "GC Direct"), however, data retained by global custodians (GCs) can now be automatically delivered and shared with other parties involved in the trade (asset management companies, trust banks and brokers) via ALERT.

Under these circumstances, JTSB began using ALERT and implemented the GC Direct workflow in August 2017 to help reduce the work required of asset management companies in order to register SSI data to ALERT, ensure more reliable registration of SSI data and reduce the risk of failures.

This allows asset management companies to apply to JTSB to create an ALERT account for investment funds that are entrusted to JTSB and whose GC has implemented GC Direct, enabling collaborative handling of SSI data through the GC Direct workflow.

### ● Benefits to Asset Management Companies

- Reduces the work required of asset management companies in order to register SSI data to ALERT
- Ensures more reliable registration of SSI data, reducing the risk of failures in securities settlements



\* Omgeo ALERT: A database service for storing SSI data provided by DTCC



## ■ Back Office Outsourcing Services for Asset Management Companies

In asset management companies (investment trust management companies/investment advisory companies), where the practice of fiduciary duty and strengthening investment capacity are the issues, they are concentrating their resources on the core businesses such as investment management, products lineup and client services; meanwhile, the need to outsource back office operations is increasing.

Under such circumstances, JTSB launched a specialized unit of outsourcing services for the back office administrations of asset management companies in 2015, which include investment trust accounting and NAV calculation, fund disclosure services, investment management accounting operations, etc. (Number of funds and assets under management of outsourcing contracts as of the end of March 2018: approximately 1,160 funds/¥17 trillion (market capitalization basis))

As the best partner of asset management companies, we will endeavor to provide solutions to diversifying needs and improve service quality by utilizing the know-how and expertise which we have cultivated as a trust bank specializing in the asset administration business with a wide range of trustee services and securities settlement operations, etc.

## ■ Handling of OTC Derivative Transactions

### ● Meeting the Requirements of International Regulations

We are meeting the requirements of the international regulations on derivative transactions triggered by the global financial crisis, with the awareness that meeting the requirements of these regulations is an important issue in a bank specializing in asset administration.

The application of the “Margin requirements for non-centrally cleared derivatives” began to be phased in from September 2016 in Japan, and application to variable margins management in entrusted assets began in March 2017. JTSB has developed systems to meet the requirements of the regulations.

Specifically, regarding margin transfers between asset management companies and dealers, JTSB has also started carrying out fair valuation of transactions and computation of the necessary margin amount, etc. and as the trustee has started carrying out monitoring to ensure that entrusted assets are preserved properly.

Going forward, as further strengthening of regulations pertaining to derivative transactions, etc. is anticipated, we will continue to closely watch the trends of international regulations and implement the necessary responses.

### ● Continuous Initiatives to Improve Service Quality

In recent years, the volume of derivative transactions has increased, the volume of OTC derivative transactions has increased in particular, and the diversification of products has progressed. In this context, JTSB expanded its derivatives system in 2015, and we are aiming to expand the corresponding products and collateral types centered on the full range of swap transactions.

Furthermore, through the introduction of straight-through processing (STP) for contract orders, etc., we are promoting the improvement of administrative processes so that administrative streamlining can be achieved in both the asset management companies and JTSB.

## Foreign Investment Trust Transactions Using the Fund Settlement Service

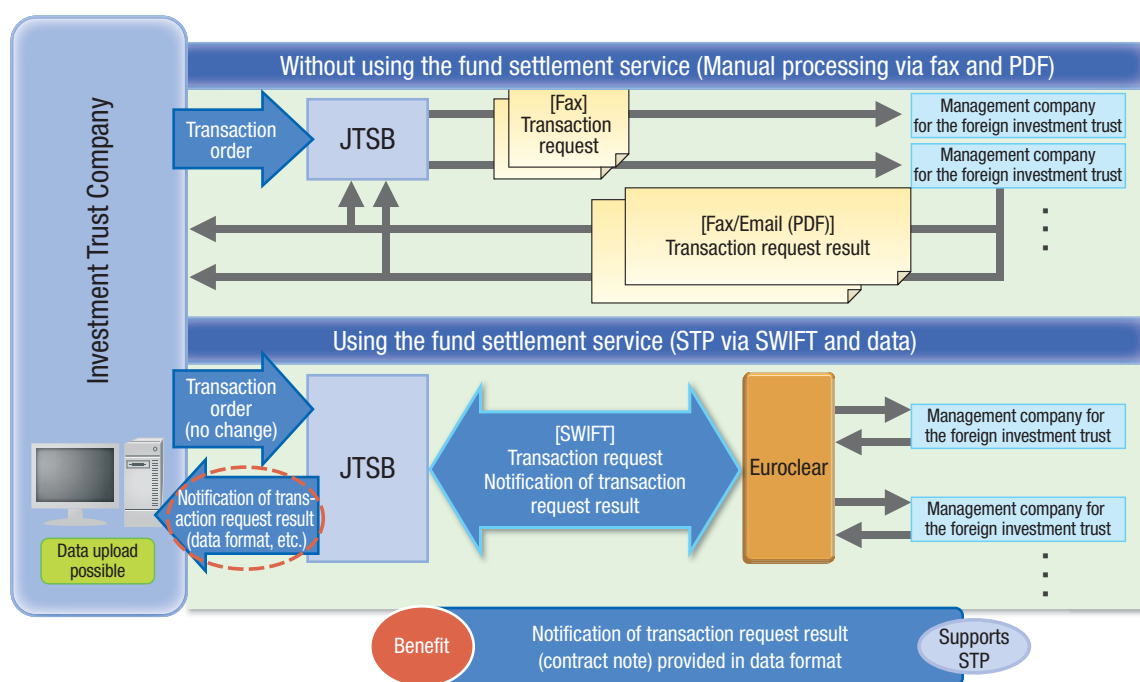
Transactions for the foreign investment trusts included in investment trusts have increased in recent years. Administrative procedures for foreign investment trusts are complex, often involving contacting different management companies for each security, making greater consistency and speed increasingly important. Another factor complicating matters is that management companies principally communicate by facsimile.

JTSB has sought to resolve this situation by partnering with Euroclear to offer the Fund Settlement service, introduced in July 2015. This service centralizes all transaction requests through Euroclear, and uses the highly efficient SWIFT system, allowing for secure and prompt transaction procedures. This initiative has enhanced satisfaction among investment trust customers.

Investment trust customers can also simultaneously take advantage of straight-through processing (STP). Specifically, while management companies normally send result notifications for the transaction requests they receive by fax or PDF, with the Fund Settlement service JTSB will provide this information in data format. Dividend information can also be provided as data, further enhancing the benefits of STP.

### Main Benefits for Investment Trust Companies

- Transaction results and dividend information available in data format
- Quick verification in yen of sales proceeds received from foreign investment trusts
- Ability to search for foreign investment trust securities information and transaction request status using a dedicated browser for the fund settlement service



## ● Participation in Custody Services for Foreign Stock Certificates, etc.

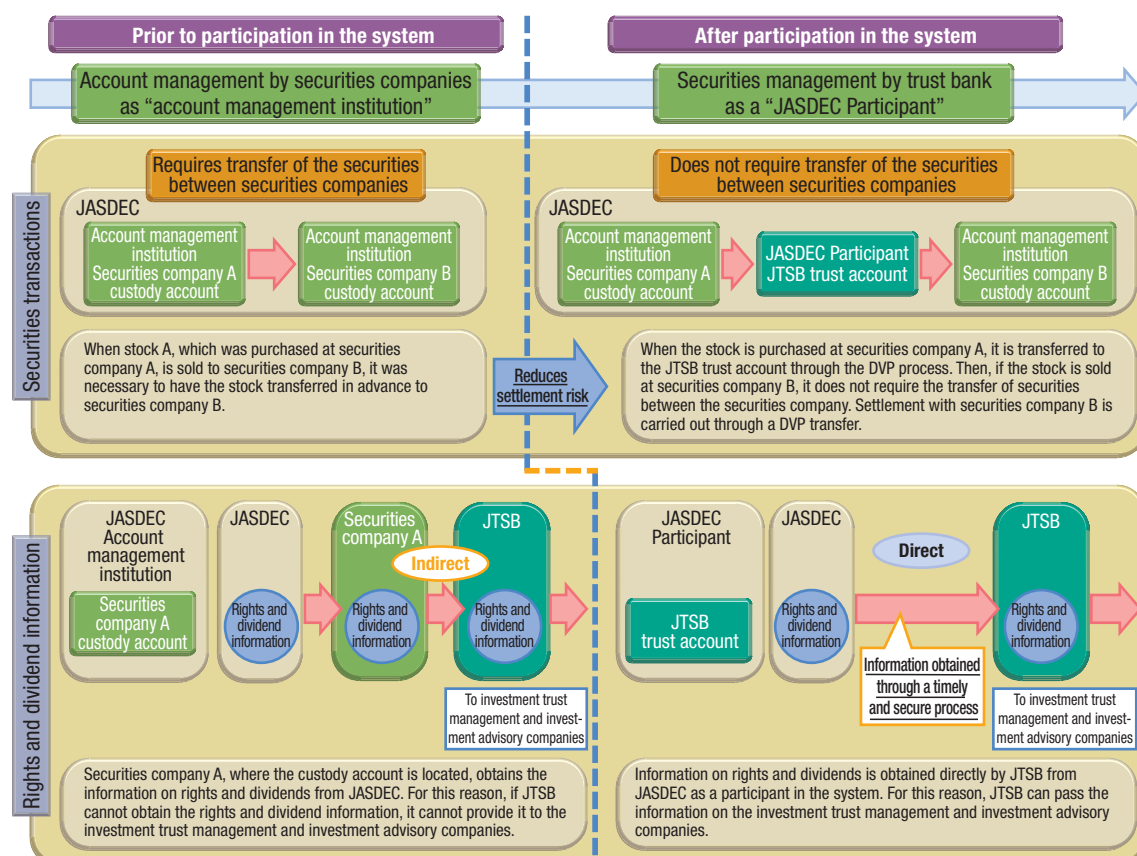
In recent years, expectations for upgrading the asset administration infrastructure have risen. Factors accounting for this have included the globalization of Japanese enterprises, fund-raising by foreign companies on the TSE, the listing of ETFs invested in Asian stocks (other than Japanese stocks), the commencement of the calculation of the JPX-Nikkei Index 400 (which may include foreign stocks listed on the TSE), and the listing of foreign stocks (including foreign ETFs) (hereinafter, TSE foreign stock).

Amid this business environment, as an asset administration company specializing previously in domestic assets, as a first initiative to respond to these trends, JTSB began to participate in the “Custody Services for Foreign Stock Certificates, etc.” of the Japan Securities Depository Center, Inc. (JASDEC) in August 2014.

As a result, previously, investments in TSE foreign stock could be transferred and settled freely, but through participation under the delivery versus payment (DVP) system, stock, etc., can be transferred and settlements made, and information can be provided on rights and dividends. These arrangements have further enhanced the safety and convenience of asset administration.

### ● Merits for Investment Trust Management and Investment Advisory Companies

- Securities and monetary settlements: DVP becomes possible ⇨ Reduces securities and settlement risk
- Information on rights and dividends: JTSB receives directly from JASDEC ⇨ Timely provision of information is expected



## ● Securities Lending Services

As part of initiatives to offer services related to the asset administration business, JTSB is substantially stepping up its securities lending services with the objective of offering customers high value added.

### ● Features of JTSB's Securities Lending Services

JTSB has one of the largest balances of assets for lending in Japan, and its staff have abundant experience in securities lending operations. JTSB also has high-level lending support systems that enable it to process large volumes of such transactions quickly. As a result, JTSB ranks among the leading stock and bond lending institutions in Japan and is working to further expand the scale of its securities lending services.

Because of the flexibility and careful tailoring of services to meet a wide range of needs of customers entrusting assets and managers as well as detailed reporting services, JTSB offers lending services that cover a wide range of products, including pensions, comprehensive securities investment trusts, specified money trusts, specified individually managed money trusts, and custody.

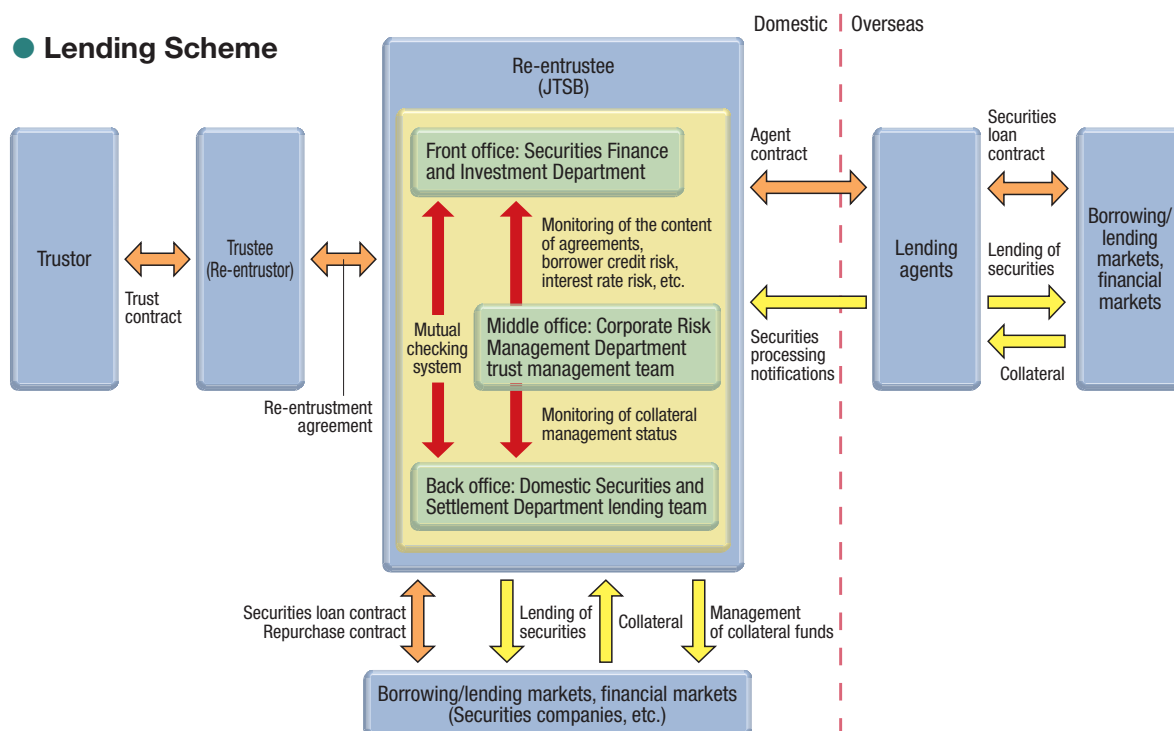
### ● Service Development

JTSB was one of the first companies in its industry to offer securities lending and introduce a diversity of lending methods as well as upgrade its operations with the aim of providing advanced, high-value-added services for its customers. These activities have included lending securities to actively managed funds through active collaboration with investment advisory companies and managers, collateral management schemes based on the tri-party method for which needs are strong among borrowers, and the introduction of platforms for securities lending transactions.

JTSB is continually reviewing and further upgrading its credit and interest rate risk management in line with changes in the market environment to ensure even safer asset management.

Going forward also, JTSB will continue to differentiate its services from others through its product and service planning capabilities and operational strengths as it works to substantially raise the level of its services and maintain its leading status in the industry.

### ● Lending Scheme



Note: The general scheme shown above pertains to re-entrustment of securities. A similar scheme for securities lending services is applicable when the securities are entrusted from one party to another.

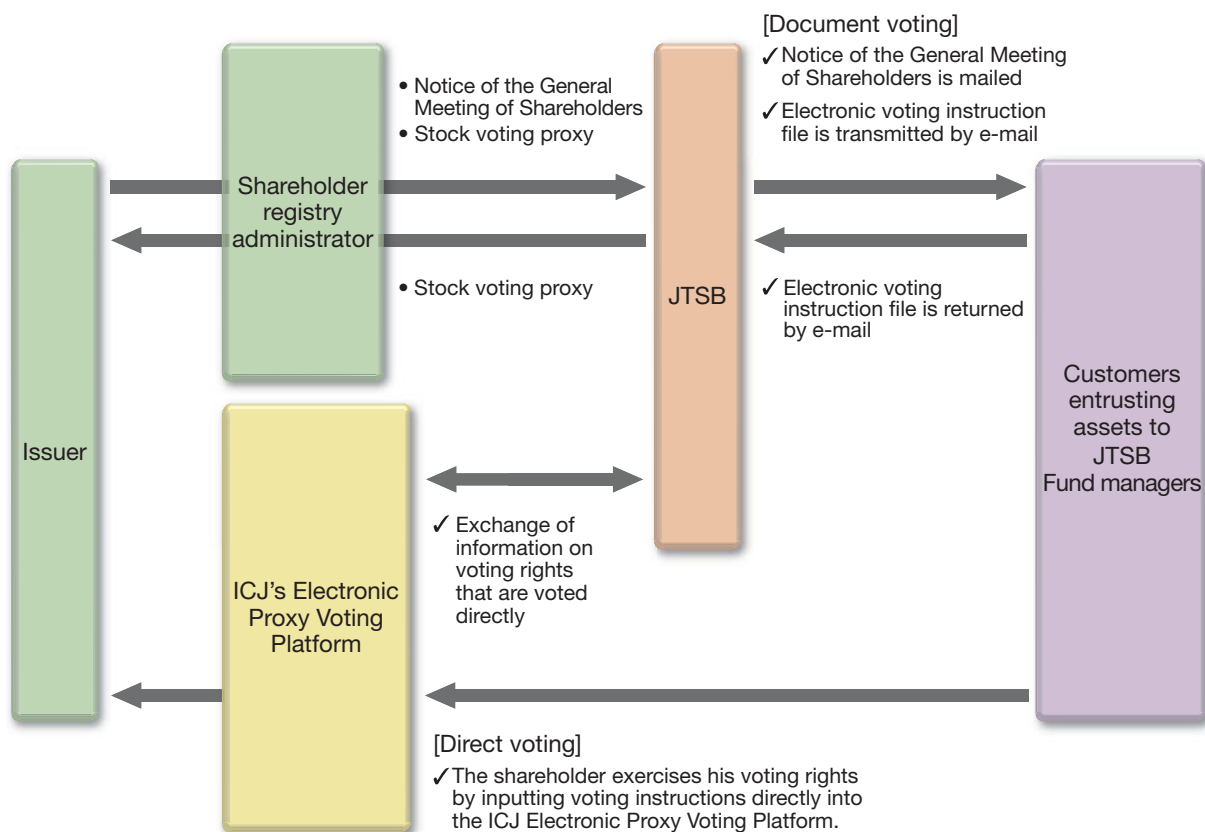
## ● Domestic Stock Proxy Voting Business

In its asset administration activities, JTSB responds flexibly to the needs of its customers regarding domestic stock proxy voting, which involves the maintenance of important rights, and has appointed specialist staff who can process proxy votes promptly and accurately. JTSB strives to execute the electronic instructions from customers entrusting assets and fund managers speedily and accurately, and, with its originally developed stock proxy voting management system, is able to offer services of even higher quality.

Also, by arranging for the participation of fund managers in ICJ Co., Ltd.'s<sup>\*1</sup> Electronic Proxy Voting Platform<sup>\*2</sup>, it has been possible to strengthen collaboration with ICJ and enable fund managers to exercise their proxy rights directly and smoothly. Looking ahead, JTSB will take even more-active initiatives in the increasingly diverse proxy voting services area.

<sup>\*1</sup>: ICJ Co., Ltd., is a joint venture, established in July 2004 by the Tokyo Stock Exchange Co., Ltd., the Japan Securities Dealers Association, and Broadridge Financial Solutions, Inc., with the objective of operating the Electronic Proxy Voting Platform.

<sup>\*2</sup>: The Electronic Proxy Voting Platform is an infrastructure system that enables institutional investors to vote directly the proxies of the shares they own without going through the trust banks that are the shareholders of record.





## ● Domestic Stock Transition Management

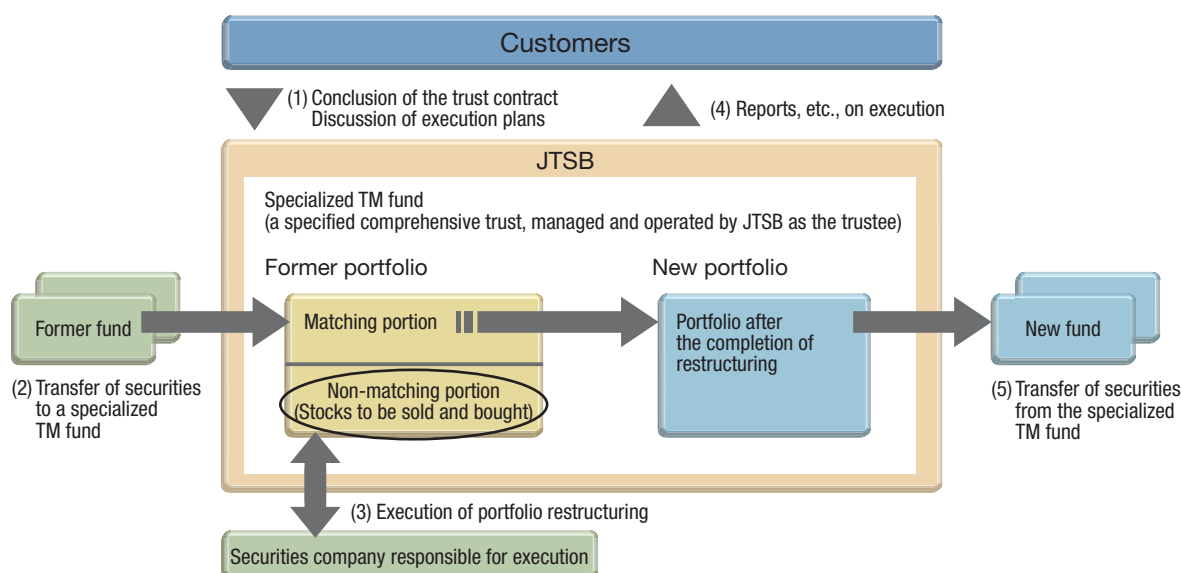
As part of its asset administration business, JTSB offers domestic stock transition management services. These include restructuring stock portfolios that have been entrusted to JTSB, and then transferring them safely and efficiently to separate accounts according to customer requests.

### ● Features of JTSB's TM Services

As trustee, JTSB adopts the specified comprehensive trust contract method, and features of its services include providing a sense of security and transparency to its customers, cost minimization, and anonymity in the market.

- (1) In addition to its extensive record of transferring securities documents, JTSB can offer high-quality service because of its dedicated systems for transition management execution.
- (2) When transition projects are entrusted with JTSB, it appoints a specific person in the specialized transition management unit in the front office on the one hand and, on the other, JTSB's specialized transition management unit in the middle office strictly monitors the activities of the securities company responsible for execution (hereinafter, executing securities company). In this way, JTSB guarantees customers a high level of transparency and the best execution.
- (3) By properly managing market risk exposure and tracking errors, JTSB minimizes costs.
- (4) By selecting the executing securities company from among those that have no capital ties with JTSB, the conflicts of interest that may arise in such transactions with related parties are eliminated.
- (5) By having transition management executed by JTSB, as a trust bank that specializes in asset administration, customers can rely on JTSB for the thorough management of information and eliminate the possibility of conflicts of interest in the conduct of transition management services.

### ● TM Scheme



## ■ CSR Initiatives

JTSB performs its main business as a bank specializing in asset administration faithfully and takes performance of these duties as the basis for fulfilling its corporate social responsibility (CSR).

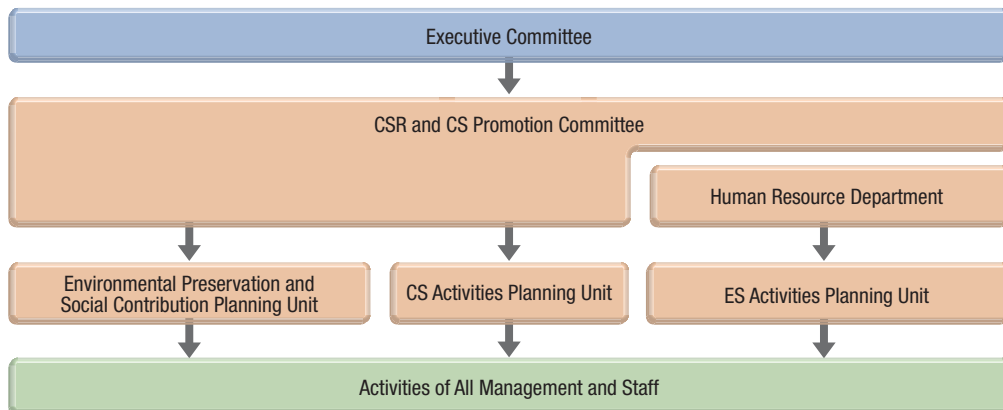
With this as a basic assumption, JTSB approaches CSR from three perspectives: “Enhancing customer satisfaction (CS),” “Enhancing employee satisfaction (ES),” and “activities for preserving the environment and contributing to society.” As all JTSB’s management and staff from their respective points of view take action, JTSB aims to reach higher levels of fulfillment of its CSR.

As a specific code of conduct for CSR activities, JTSB has established the following policies for action and is working to raise the awareness of CSR among each and every member of management and staff. As the center of these activities, JTSB has established a Companywide cross-divisional CSR and CS Promotion Committee to support the activities of all management and staff.

### Policy for CSR Activities

- We have a strong awareness of our high-level functions in the social infrastructure in the field of administering securities and other assets and offer high-quality services promptly and accurately to all our customers.
- We contribute to the development of our customers and society by developing and providing services that meet the needs of our customers.
- We, as members of society, participate, on an individual and voluntary basis, in activities that contribute to society.
- We, by contributing to society, work to create a workplace we can each take pride in and work energetically.

### ● System for Activities



### ● Principal Initiatives

#### Social Contribution Planning Unit

This unit actively engages in a range of projects that contribute to society, including those providing support for the blood donation activities of the Tokyo Red Cross Blood Donation Center.

#### CS Activities Planning Unit

Under its slogan of “Nurture the Tree of Reliability! Make the Smiles of Our Customers Bloom,” this unit is engaging in group discussions and meetings to exchange opinions with other companies with the objectives of raising the awareness of CS among management and staff and thereby “enhancing CS.”

#### ES Activities Planning Unit

Activities of this unit include promoting the taking of parental leaves of absence among employees and creating systems to provide assistance to employees raising children. The unit has also established an “External Advice and Counseling Desk” and is taking steps to enable employees to work with a greater peace of mind by creating systems to help them deal with the problems they may face. In addition, this unit aims to create a corporate culture that respects the rights of each and every employee and is free of discrimination by aggressively implementing activities that increase the awareness of human rights, focusing around the Human Rights Awareness Promotion Committee.





- Initiatives for Improving Processing Quality..... P28
- Active Initiatives for Reforming Securities Settlement and Other Functions ..... P29
- Overall Composition of Company Systems ..... P30
- Systems Development and Operations Management Framework..... P31
- Information Security Management ..... P31



## ■ Initiatives for Improving Processing Quality

### ● Activities to Improve Operations Processing Quality

JTSB has established an Operations Planning Department to oversee the construction of operations processing, and is working to improve the quality and efficiency of its operations.

As the JTSB department in overall charge of operational planning, the Operations Planning Department handles matters related to regulatory issues, taxation, and accounting and is responsible for structuring operation processing systems that are appropriate for offering products and services to JTSB customers, investment trust management companies, and investment advisory companies. The department is also in charge of planning and the promotion of measures pertaining to improvements in processes, standardization, and efficiency enhancement. Also, as noted in the next section under Processing Risk Management Activities, this department is preparing the way for securing the effectiveness of processing risk management activities.

### ● Processing Risk Management Activities

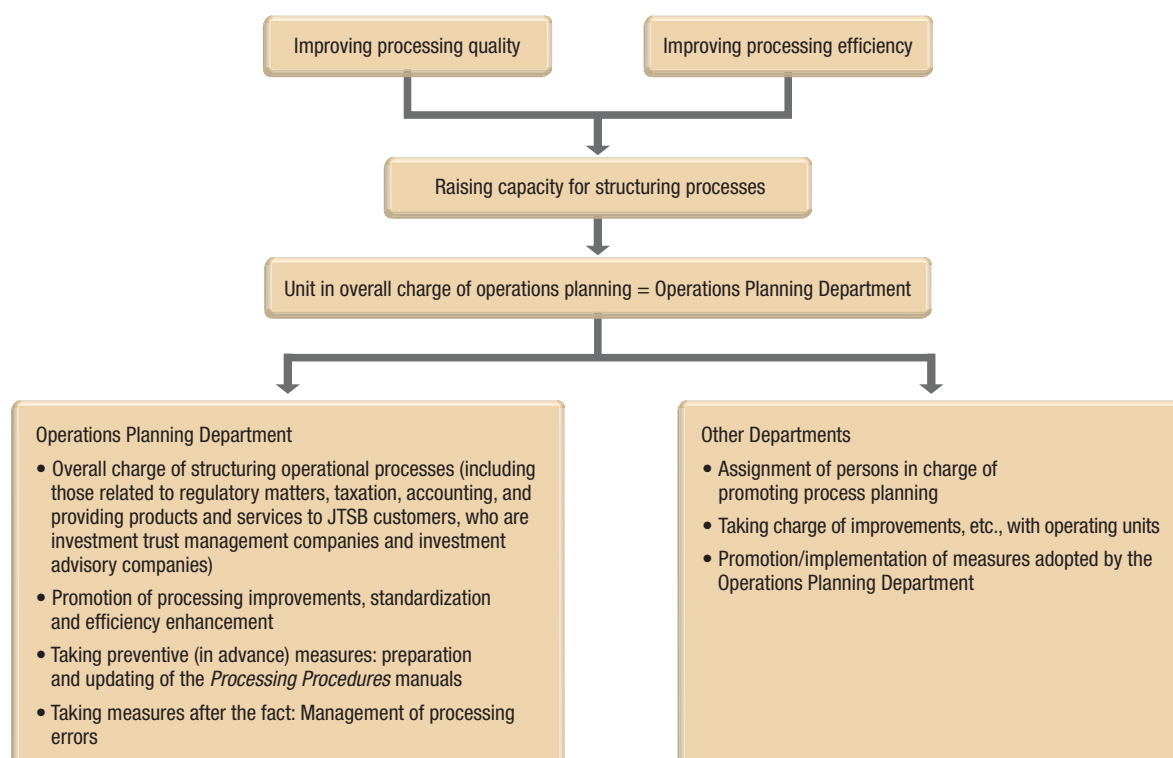
With the awareness that minimizing processing risk is one of the most-important issues for JTSB as a company specializing in asset administration, JTSB has prepared its Processing Risk Management Rules, which contains basic items for conducting proper and smooth processing operations and for the management of processing risk, reducing risk, and preventing the emergence of risk. Based on these rules, JTSB engages in control activities to take preventive measures (in advance) and deal with risks that have emerged (after the fact).

#### Preventive measures

To prevent accidents and other incidents, JTSB has established processing procedures manuals for all its processing operations, forbidden non-standard processing, and established mutual checking as standard procedure.

#### Dealing with risks that have emerged

In the event of an accident or other incident, JTSB endeavors to accurately assess the situation, report it quickly, and take action with the top priority placed on the protection of managed assets. JTSB also analyzes the factors and issues that caused the incident, formulates measures to prevent reoccurrence and confirms the effectiveness of these measures.





## ■ Active Initiatives for Reforming Securities Settlement and Other Functions

The securities settlement system plays an important role in Japan's securities transactions as a core element in the institutional base. JTSB, as a leading company in the asset administration business, is preparing actively to respond to the "Securities Settlement System Reforms" and the "Domestic Securities Market Reforms." A major event that happened recently was the launch of a system to shorten the period of settlement for government bonds in May 2018.

In addition, JTSB positions responding appropriately to the "International Regulations" for derivative transactions, and the "Extraterritorial Application of Individual Regulations" in the United States and Europe (under which Japanese financial institutions are subject to regulation) as one of the important issues and has been steadily implementing it.

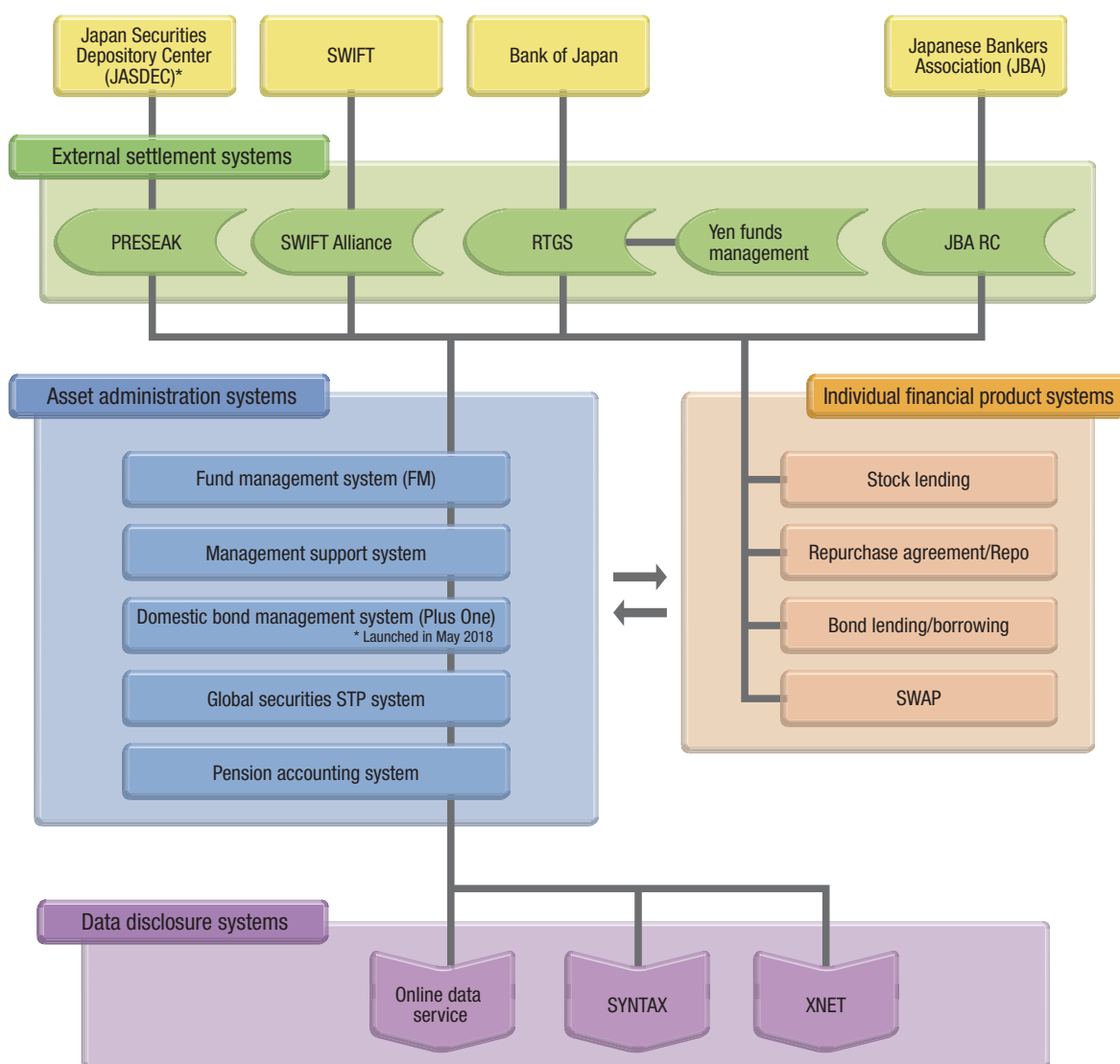
Category	Field	Upcoming Events	Content and JTSB's Initiatives	Timing*
Securities Settlement System Reforms	Government bond transactions	Shortening the period of settlement for government bonds	The period for settlements from transactions (contract) to final settlement (delivery) will be shortened, and settlement risk in the market as a whole will be reduced. JTSB has already implemented this system.	May 2018
		Handling of new repurchase transactions	As part of the shortening of the settlement period for Japanese government bonds (JGBs), conventional repo transactions with cash collateral have now been centralized as new repurchase transactions as a rule. JTSB has already implemented this system.	May 2018
		Participation of trust banks in government bond transactions via the clearing organization	By having trust banks participate in the system for settlement of government bond transactions, settlement risk of transactions in trust accounts will be reduced. JTSB is already participating.	Around June 2014 For lending/borrowing transactions
	Stock trading	Shortening of the settlement period for stock transactions	The period between transaction (execution) and settlement (transfer) will be shortened, reducing settlement risk for the market overall. JTSB will take all suitable measures to launch this system.	July 2019
		Measures for stock lending guidelines	As part of the shortening of the settlement period for stocks, JTSB has established market-wide stock lending guidelines. JTSB will take measures based on these guidelines after considering the measures that are needed.	July 2019
Domestic Securities Market Reforms	Securities and Futures markets	Increasing activity in the bond (general bonds) market	With the goal of increasing activity in bond transactions, etc., discussions are being held regarding stepping up trading through the participation of the principal market participants. JTSB is taking appropriate measures to respond.	Not decided
Reduction of settlement risk through international regulations, etc.	Derivative transactions	Restrictions on margins, etc., for transactions that will not make use of a Central Counterparty Clearing House (CCP)	Regarding OTC derivatives that will not make use of a Central Counterparty Clearing House (CCP), non-centrally cleared OTC derivatives settled directly between parties for the purpose of reducing settlement risk in the market as a whole now also require the receipt and payment of margins. JTSB has responded appropriately.	Expected by March 2017 Applicable to variable margins, etc.
	Foreign currency exchange transactions	Involvement in CLS bank PVP settlement system	Discussions on enabling PVP settlements through CLS banks even for investment funds are underway at relevant organizations. JTSB will also take measures to enable parties such as customers to use this service on request.	First half of 2020 (full-scale phase)
	Global securities transactions	Collateral now required for transactions such as TBA transactions	According to the regulations of FINRA in the USA, American companies are required to collect collateral when carrying out transactions such as TBA transactions. JTSB will take all suitable measures.	March 2019
Regulations in Regions and Countries (extraterritorial application)	Europe	Introduction of a financial transactions tax	For the sake of the stability of the financial systems in Europe, there is a movement toward levying a transactions tax on securities, derivative and other transactions. JTSB is responding in an appropriate manner.	In accordance with the conditions in each European country

\* The timing of items not confirmed are to be scheduled.

## Overall Composition of Company Systems

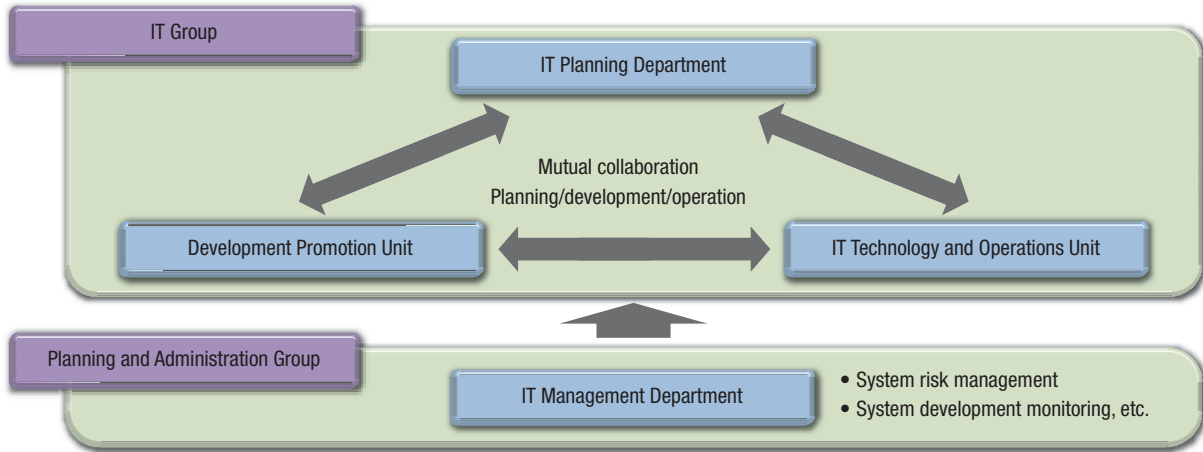
JTSB's systems must perform a full range of integrated securities administration functions to meet the needs of pension funds, specified money trusts, investment trusts, and other types of customers. These functions include the processing of transactions, the management of account balances, and the preservation of ownership rights, through to accounting and reporting on funds. These various functions are performed by an overall system that is capable of rapid processing operations and is composed of mutually linked specialized systems performing distributed processing operations.

By realizing the appropriate combination of mainframe and distributed processing, which may depend on the objectives and nature of processing operations, JTSB is able to provide customers with the data they need and respond flexibly to their requests.



\* The Japan Securities Depository Center is a central securities depository providing securities settlement and administration services.

## ■ Systems Development and Operations Management Framework



JTSB has its own system development departments in-house. This makes possible rapid decision making in IT-related operations, and the operating departments and IT departments work together in implementing initiatives.

The IT Planning Department is responsible for preparing plans and the overall management of IT operations. It works closely with the Development Promotion Unit, which is responsible for the integrated implementing of various activities ranging from identification of tasks and projects to the development of applications. The IT Planning Department also works closely with the IT Technology and Operations Unit, which are responsible for structuring systems platforms, providing technical support, and system operations. As these three organizational units act in close collaboration, JTSB is able to respond promptly to the varied and diverse needs of its customers.

In addition, under JTSB's organizational structure, the IT Management Department, which is responsible for risk management and is independent of the IT Group, monitors the risk of system development.

Going forward, JTSB will strive to strengthen the governance of the IT functions and improve productivity in system development. It will also respond steadily to changes in the environment surrounding the asset administration business and ensure the stable operation of its systems infrastructure.

## ■ Information Security Management

JTSB has structured and audited its information security systems on a systematic basis and has created the necessary systems for risk management. Today's asset administration business is based on sophisticated computerized information processing, and requirements for the strict management of information, as represented by the provisions of Japan's Personal Information Protection Law, have been tightened substantially.

JTSB sets priority levels for all the information assets it holds based on the risk of losses that customers may incur because of actions, such as leakage, loss, falsification, etc. Depending on the level of risk, JTSB takes appropriate security measures for the acquisition, usage, management, storage, internal transmission, and removal of information assets from the JTSB premises, its disposal, and other such actions.

Also, in managing its information systems, JTSB implements safety precautions and measures to prevent improper entry, usage, or other such actions. JTSB maintains its computer hardware systems and ensures that backup and alternative facilities are held in readiness. Through the preparation of backup data and operating manuals, JTSB implements measures to increase even further the reliability of its hardware, software, and systems operations.

These security management systems have been based on internationally recognized information security management guidelines and the safety measures standards issued by The Center for Financial Industry Information Systems (FISC), a public interest incorporated foundation. JTSB thoroughly reviews its information systems and information assets, identifies possible threats, ascertains the current risk levels, assesses them, and implements measures on a continuing basis using the "plan, do, check, act" cycle management approach.





- Risk Management Systems ..... P34
- Compliance Systems..... P35
- Crisis Management Systems (Business Continuity Plans)... P36
- Internal Auditing Systems ..... P38



## ■ Risk Management Systems

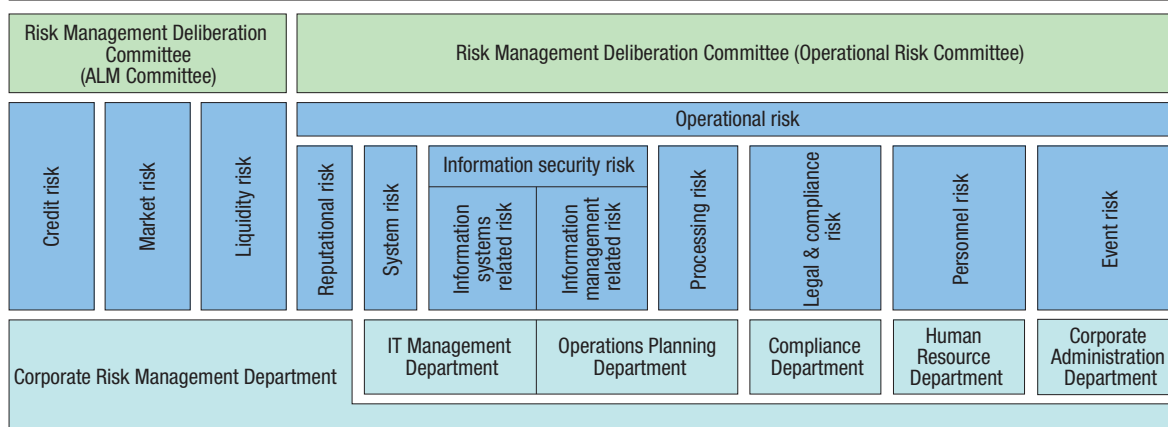
For JTSB to fulfill its public mission as a trust bank specializing in asset administration, it is required to ensure the soundness of its management by measuring risk accurately and controlling it. To satisfy this requirement, JTSB manages operational risk, credit risk, market risk, and liquidity risk using methods appropriate for their special characteristics and has developed systems for overall, integrated risk management.

### ● Common Basic Risk Policy

- JTSB classifies risks by risk categories—namely, operational risk, credit risk, market risk, and liquidity risk—and manages each of these risks with methods appropriate for their special characteristics.
- By managing these risk categories through a process involving identification, assessment, monitoring, control, and taking steps to reduce risk, JTSB gains an accurate understanding of the status of such risks and takes appropriate risk management measures. In addition, by gaining an understanding of the aggregate level of risk in each category, JTSB makes qualitative and quantitative assessments of these risks and focuses on managing them by making comparisons with its management condition and capabilities.
- JTSB is aware that the principal risk in its risk profile is operational risk because of its specialization in the asset administration business and, therefore, focuses on the reduction of operational risk.
- For other risk categories, JTSB's policy is to minimize such risks that may arise in the conduct of its asset administration business operations.

### ● Content and Management Systems for Principal Risk Categories

Risk category	Content of risk
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
Credit risk	The risk of losses due to the decline in or complete loss of value of assets (including off-balance sheet assets) as a result of the deterioration in the financial condition of borrowers.
Market risk	The risk of losses due to the change in value of assets held (including off-balance sheet assets) as a result of such market risk factors as fluctuations in interest rates, changes in the market price of securities, foreign exchange rates, and other indicators. In particular, during times of market turmoil or other adverse circumstances when it becomes impossible to carry out market transactions or transactions must be conducted on extremely unfavorable terms, this is termed market liquidity risk.
Liquidity risk	The risk of losses due to the inability of obligors to secure sufficient funds to cover financial obligations because of such factors as deterioration in their financial condition or in cases where obligors must procure funds at interest rates that are much higher than normal.



#### ● Risk Management Deliberation Committee (Operational Risk Committee)

Responsible for coordination related to Company-level and interdepartmental operational risk issues in all risk categories, such as legal and compliance risk as well as personnel risk; promotion of operational risk management measures; and consideration and deliberation related to strengthening risk management systems.

#### ● Risk Management Deliberation Committee (ALM Committee)

Responsible for deliberation regarding matters related to lending activities in JTSB's banking operations, matters related to overall ALM, and matters related to operation and management of market risk and liquidity risk.

## ■ Compliance Systems

To respond to changes in the times accompanying the growing competition among financial institutions that is extending beyond the financial services industry and the rising sophistication of financial technology, financial institutions are required to abide strictly by the principle of being responsible for their own actions and maintaining management transparency. Moreover, as a bank specializing in asset administration, JTSB must comply with all laws and regulations and fulfill its social responsibilities of contributing broadly to society and the economy, while also fulfilling its important public mission as a trust bank. To fulfill its responsibilities and mission, JTSB has established its Ethics Charter and has positioned compliance with laws and social norms as one of its most-important management issues. JTSB works to heighten the awareness of compliance among all management and staff with the aim of conducting corporate activities that are reliable and fair and will win the trust first of our customers and from society as a whole.

### ● JTSB's Compliance Systems

JTSB has formed its Compliance Department to be in overall charge of compliance matters. Its responsibilities include formulating compliance programs to promote the implementation of compliance matters, prepare related rules and regulations, formulate other measures for promoting compliance, making all personnel aware of compliance, providing guidance, and achieving overall progress toward compliance objectives. In addition, in each of JTSB's internal units, compliance officers have been appointed, and these officers serve the functions of ensuring that all departments are conducting their activities in compliance with laws and regulations and confirming the status of compliance. The Compliance Department and the compliance officers in each department hold meetings of the Compliance Officers Committee regularly to discuss matters related to promoting compliance and exchange information.

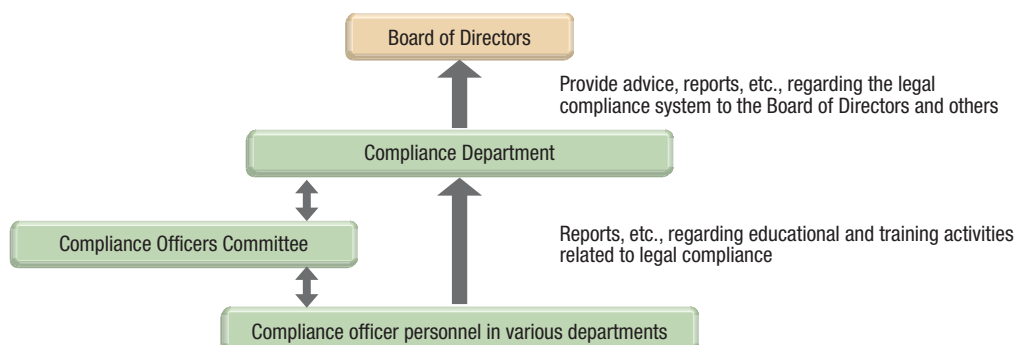
### ● Making All Personnel Aware of Compliance

To ensure appropriate compliance with laws and regulations, each and every member of the management and staff of JTSB must be aware of compliance at all times and practice compliance. To this end, JTSB has prepared and made all management and staff aware of its *Compliance Manual*, which contains a code of conduct for use in the daily conduct of operations and information on relevant laws and regulations. In addition, all management and staff are required to attend training courses on compliance periodically.

### ● Compliance Hotline System

JTSB has made arrangements that make it possible for employees to report compliance violations or their concerns about possible violations promptly, fairly, and properly directly to either internal or external compliance listening desks. When such reports are received, the Compliance Department investigates the matter immediately and takes action as necessary.

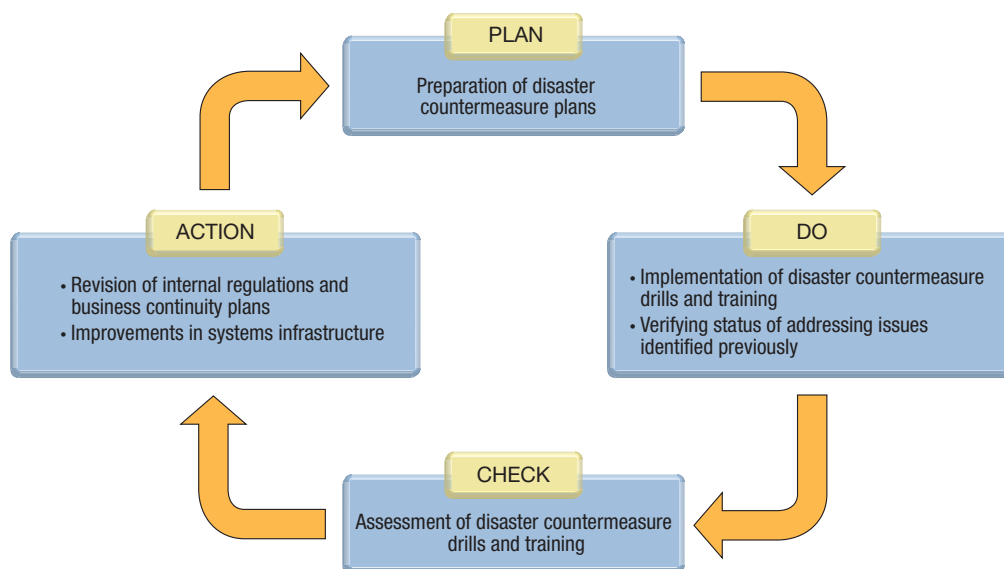
Diagram of the JTSB Compliance System



## ■ Crisis Management Systems (Business Continuity Plans)

As a bank specializing in asset administration with a large balance of entrusted assets, JTSB's operations may be seriously impacted in the event of natural disasters or major malfunctions, or if its buildings and systems are damaged by such disasters or by terrorists, or for other reasons. In cases where such disasters can be foreseen, JTSB has prepared business continuity plans that provide for quick early action to restrain damages to a minimum after giving first priority to ensuring the safety and lives of customers and employees as well as their families. These business continuity plans, which have been prepared in ordinary times by the Crisis Management Committee, then set forth plans for restoring regular operations smoothly at an early date.

Business continuity plans are prepared under the supervision of the Crisis Management Committee during normal times, and JTSB is responding to newly emerging issues through conducting periodic practice drills to be prepared for times of disaster.



## ● Facilities (Installations and Equipment)

JTSB's Head Office is located in the Harumi Island Triton Square complex and is designed to withstand magnitude seven (Japanese scale) earth tremors, such as the 2011 Great East Japan Earthquake. The building is also outfitted with electric power, telecommunications, security, and other functions. Further, as a financial institution JTSB has enhanced its facilities in line with the standards issued by The Center for Financial Industry Information Systems (FISC), including a dedicated electric power generator to secure a power supply, telecommunications lines from multiple carriers to avoid communication breakdowns, and an IC card system to strengthen crime prevention measures.

In addition, JTSB's systems centers and backup sites have a similarly strong infrastructure, including anti-earthquake construction, electric power sources, and security facilities.

## ● Backup Systems

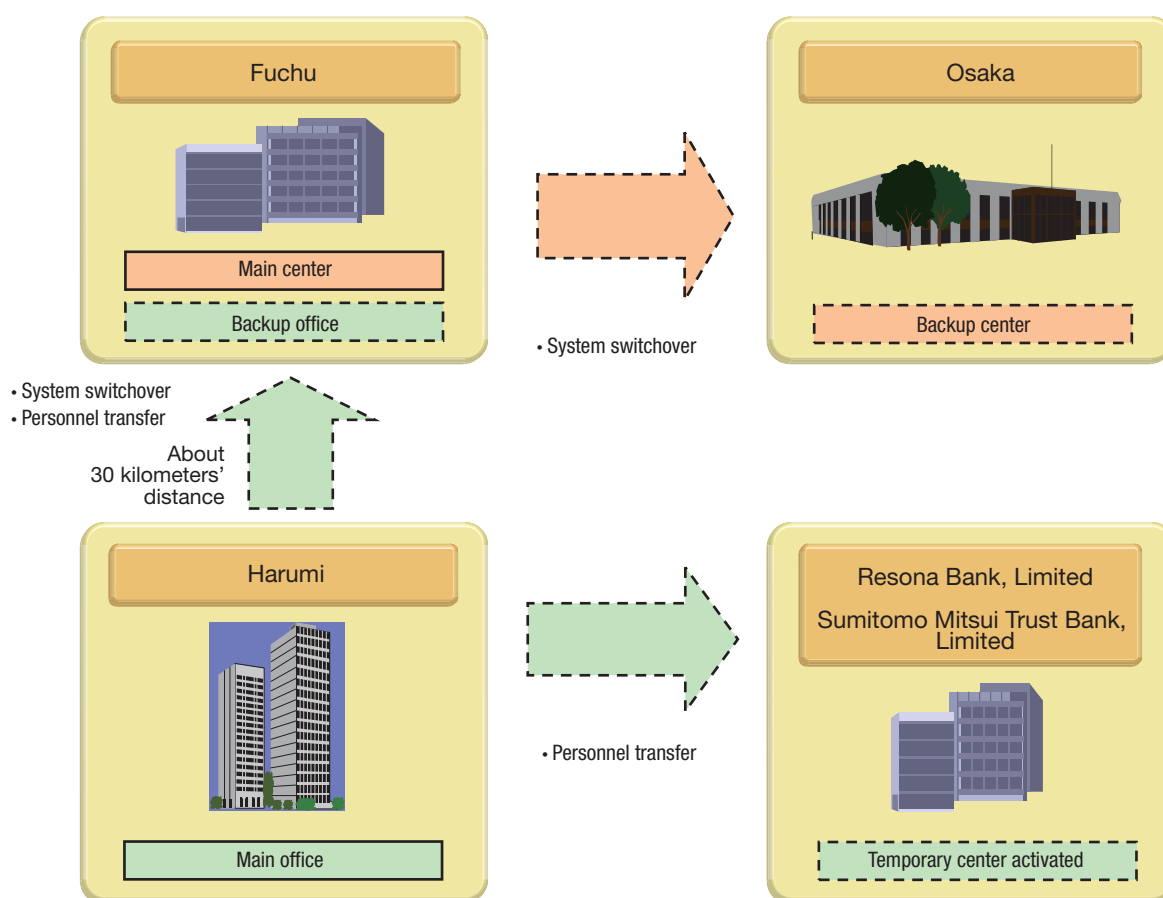
JTSB's offices and system centers have backup facilities in preparation for possible natural disasters or other difficulties. JTSB established facilities in its Fuchu business location to provide backup for the functions of the Harumi Head Office. These facilities in Fuchu went into operation in December 2002 and were upgraded in November 2012. JTSB also has a backup center providing backup systems for the Fuchu office in Osaka Prefecture. JTSB opened this center in October 2003 in Chiba Prefecture and moved it to Osaka in October 2016.

If the Harumi Head Office is affected by a disaster, operations will be continued at the Fuchu backup office, and at temporary windows (delivery windows of securities companies and other customers). Certain priority operations (settlements, etc.) will be input by staff at the Fuchu center until staff from Harumi can arrive.

If the Fuchu center is affected by a disaster, the system environment will be transferred and operations continued at the backup center (Osaka Prefecture).

## ● Practice Drills for Disaster Countermeasures

Following systematic disaster countermeasure plans, post-disaster practice drills are conducted at the backup sites as well as drills with the participation of outside organizations to verify the workability of business continuity plans prepared by various departments. These repeated practice drills enable all staff to make preparations to act smoothly during times of disaster.

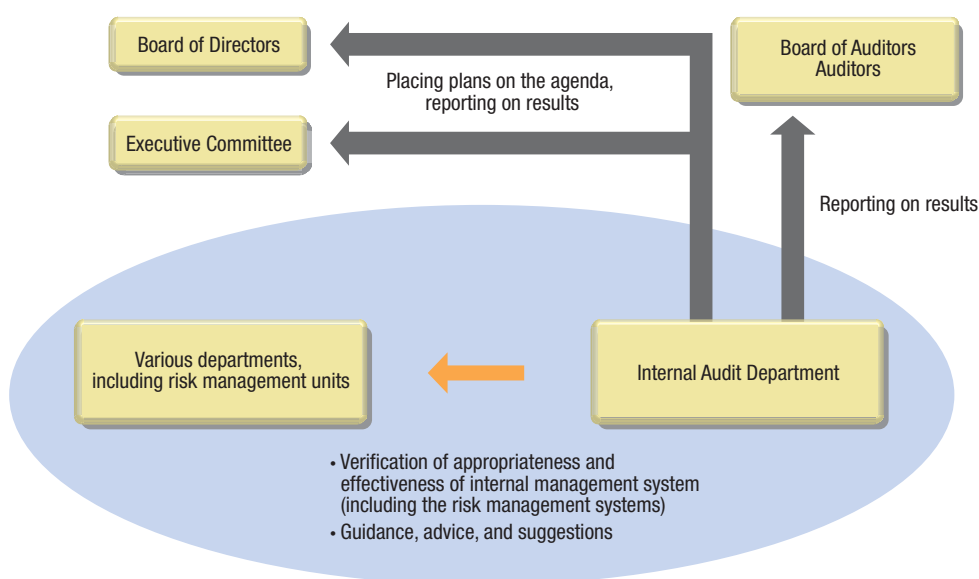


## Internal Auditing Systems

The internal audit independently verifies the appropriateness and effectiveness of internal management systems, including those related to compliance and risk management. The objective of this verification is to strengthen internal management systems, improve business operations, enhance efficiency and rationalize management through providing advice and suggestions based on the results of the verification.

JTSB prepared its “Internal Auditing Policy” that sets forth internal auditing policies, the position of the internal audit unit within the organization, and other basic matters. The Internal Audit Department was formed as an organizational unit that is independent from the operating departments. The department gains an understanding of the operations of the departments subject to internal auditing and the types of risks inherent in their activities and assesses these risks. This department then prepares audit plans, giving attention to the frequency and depth of the audits and then works to conduct efficient and effective audits.

Depending on the objectives of the internal audits, such audits are divided into two types: namely, General Audits that examine matters related to the businesses of the departments subjected to auditing and Theme Audits that focus on specified themes. Results of these audits are reported promptly to the directors and corporate auditors, and reports are made periodically to the Executive Committee and Board of Directors.





■ Financial Data

- Balance Sheets..... P40
- Statements of Income ..... P41
- Statements of Changes in Net Assets..... P42
- Confirmation Statement from Management ..... P49
- Auditors’ Statement..... P49
- Basel III Pillar 3 Disclosure Items ..... P49
- Trust Assets and Liabilities ..... P52



# Financial Data

## Balance Sheets

### Assets

(¥ million)

	March 31, 2017	March 31, 2018
Cash and due from banks	12,673,101	13,177,699
Cash	1	0
Due from banks	12,673,099	13,177,698
Call loans	350,000	350,000
Receivables under securities borrowing transactions	15,497	51,246
Securities	45,225	337
Government bonds	44,890	—
Stocks	320	320
Other securities	15	17
Loans and bills discounted	49,127	184,058
Loans on deeds	49,127	184,058
Other assets	43,444	47,034
Prepaid expenses	504	485
Accrued income	1,712	1,906
Cash collateral pledged for financial instruments	27,000	27,200
Other assets	14,227	17,442
Tangible fixed assets	2,186	1,906
Buildings	1,151	1,068
Lease assets	8	3
Other tangible fixed assets	1,027	833
Intangible fixed assets	22,574	22,381
Software	22,568	22,375
Other intangible fixed assets	5	5
Prepaid pension expenses	219	263
Deferred tax assets	512	348
<b>Total assets</b>	<b>13,201,888</b>	<b>13,835,275</b>

### Liabilities and net assets

(¥ million)

	March 31, 2017	March 31, 2018
Deposits	6,807,134	7,840,589
Current deposits	5,568,956	4,489,523
Ordinary deposits	1,227,486	3,343,717
Other deposits	10,691	7,349
Borrowed money from trust account	6,300,520	5,898,261
Other liabilities	34,184	36,015
Income taxes payable	390	174
Accrued expenses	1,223	1,516
Lease obligations	9	4
Asset retirement obligations	128	131
Deposits received	30,713	32,359
Other liabilities	1,719	1,828
Provision for bonuses	368	406
Provision for retirement benefits	504	555
Provision for directors' retirement benefits	20	11
<b>Total liabilities</b>	<b>13,142,731</b>	<b>13,775,840</b>
Capital stock	51,000	51,000
Retained earnings	8,112	8,435
Legal retained earnings	922	954
Other retained earnings	7,190	7,481
Retained earnings brought forward	7,190	7,481
Total shareholders' equity	59,112	59,435
Valuation difference on available-for-sale securities	43	(0)
Total valuation and translation adjustments	43	(0)
<b>Total net assets</b>	<b>59,156</b>	<b>59,435</b>
<b>Total liabilities and net assets</b>	<b>13,201,888</b>	<b>13,835,275</b>

## Statements of Income

(¥ million)

	From April 1, 2016 to March 31, 2017	From April 1, 2017 to March 31, 2018
<b>Ordinary income</b>	<b>26,559</b>	<b>27,436</b>
Trust fees	20,243	20,577
Interest income	(2,164)	(2,420)
Interest on loans	14	0
Interest and dividends on securities	24	20
Interest on call loans	(0)	0
Interest on receivables under securities borrowing transactions	0	3
Interest on due from banks	(2,203)	(2,443)
Other interest received	0	0
Fees and commissions	8,428	9,208
Fees and commissions on domestic and foreign exchanges	324	360
Other fees and commissions	8,104	8,847
Other income	51	70
Other income	51	70
<b>Ordinary expenses</b>	<b>25,983</b>	<b>26,236</b>
Interest expenses	42	78
Interest on deposits	3	7
Interest on call money	—	0
Interest on borrowings	0	0
Other interest expenses	39	70
Fees and commissions expenses	292	290
Fees and commissions on domestic and foreign exchanges	78	85
Other fees and commissions	214	204
General and administrative expenses	25,645	25,867
Other expenses	1	0
Other expenses	1	0
<b>Ordinary profit</b>	<b>576</b>	<b>1,199</b>
<b>Extraordinary income (loss)</b>	<b>24</b>	<b>448</b>
Loss on disposal of fixed assets	7	448
Other extraordinary losses	16	—
<b>Income before income taxes</b>	<b>552</b>	<b>751</b>
<b>Income taxes—current</b>	<b>234</b>	<b>87</b>
<b>Income taxes—deferred</b>	<b>(72)</b>	<b>182</b>
<b>Total income taxes</b>	<b>161</b>	<b>270</b>
<b>Net income</b>	<b>390</b>	<b>480</b>

# Financial Data

## Statements of Changes in Net Assets

From April 1, 2016 to March 31, 2017

(¥ million)

	Shareholders' equity					Valuation and translation adjustments		Total net assets
	Capital stock	Retained earnings			Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
		Legal retained earnings	Other retained earnings	Total retained earnings				
			Retained earnings brought forward					
Balance at the beginning of the period	51,000	894	6,970	7,864	58,864	116	116	58,981
Changes during the period								
Cash dividends		28	(171)	(142)	(142)			(142)
Net income			390	390	390			390
Net changes of items other than shareholders' equity						(73)	(73)	(73)
Total changes during the period	—	28	219	248	248	(73)	(73)	174
Balance at the end of the period	51,000	922	7,190	8,112	59,112	43	43	59,156

From April 1, 2017 to March 31, 2018

(¥ million)

	Shareholders' equity					Valuation and translation adjustments		Total net assets
	Capital stock	Retained earnings			Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
		Legal retained earnings	Other retained earnings	Total retained earnings				
			Retained earnings brought forward					
Balance at the beginning of the period	51,000	922	7,190	8,112	59,112	43	43	59,156
Changes during the period								
Cash dividends		31	(189)	(158)	(158)			(158)
Net income			480	480	480			480
Net changes of items other than shareholders' equity						(43)	(43)	(43)
Total changes during the period	—	31	291	322	322	(43)	(43)	278
Balance at the end of the period	51,000	954	7,481	8,435	59,435	(0)	(0)	59,435

Amounts less than ¥1 million are rounded down.

### Significant Accounting Policies (Fiscal year ended March 31, 2018)

#### 1. Standards for evaluation of securities and valuation methods used

In principle, as with available-for-sale securities, securities are valued by the market method based on the market price or other appropriate price at the balance sheet date (with the sales price calculated by the moving average method). However, for securities for which it is generally recognized that the determination of market prices is extremely difficult, JTSB employs the original purchase prices using the moving average method. Note that the full amount of adjustments in the value of available-for-sale securities is accounted for by adding such amounts directly to net assets.

#### 2. Depreciation methods

##### (1) Tangible fixed assets (excluding leases)

JTSB calculates depreciation of tangible fixed assets by the declining-balance method, with the exception of buildings (excluding equipment installed in buildings), and facilities attached to buildings and structures acquired on or after April 1, 2016, which are depreciated by the straight-line method. Estimated useful lives of major items are as follows:

Buildings: 3-43 years

Others: 2-20 years

##### (2) Intangible fixed assets (excluding leases)

Intangible fixed assets are amortized using the straight-line method. Software for internal use is amortized over its estimated useful life (generally five years).

##### (3) Lease assets

Lease assets for which the ownership does not transfer and are included in tangible fixed assets are depreciated using the straight-line method over the estimated useful life. Note that for those leases that are based on contracts providing for guarantees of residual value the assets are depreciated down to the specified residual value, and all other assets are depreciated to zero.

#### 3. Standards for translating foreign currency assets and liabilities into yen

Foreign currency assets and liabilities are translated into Japanese yen at the exchange rate prevailing at the balance sheet date.

#### 4. Standards for calculating reserves

##### (1) Provision for bonuses

To provide for the payment of bonuses, JTSB sets aside a reserve for bonuses for employees in the amount of the estimated bonuses attributable to the relevant fiscal year.

##### (2) Provision for retirement benefits

To provide for the payment of retirement benefits to employees, JTSB sets aside the reserve necessary at the fiscal year-end to cover such benefits, based on estimates of its retirement benefit obligations and the expected value of pension plan assets. In addition, in calculating retirement benefit liabilities, the expected amount of retirement benefit payments through the end of the subject fiscal year is allocated to the fiscal year under the benefit formula standard.

Please note that the method for amortizing expenses or recognizing gains arising due to actuarial differences is as follows.

Actuarial calculation differences: The unrecognized net actuarial difference accrued in each fiscal year is amortized proportionately using the straight-line method over a specified number of years (five years), which is within the average remaining years of service in each year when the obligations are incurred, commencing from the next fiscal year of incurrence.

##### (3) Provision for directors' retirement benefits

To provide for the payment of retirement benefits for directors and statutory auditors, as provided for in JTSB's rules for payment of such retirement benefits, the portion of the total of such benefits that have accrued through the end of the fiscal year under review is set aside as a reserve.

Note that retirement benefits for executive officers are included in the provision for directors' retirement benefits.



# Financial Data

## 5. Accounting for consumption taxes

National and regional consumption taxes (hereinafter, consumption taxes) are accounted for using the net-of-tax method.

## Notes to Accounting Items (Fiscal year ended March 31, 2018)

### Balance Sheets

1. Of the securities received due to bond borrowing transactions with cash collateral, there are securities that can be freely disposed of using the methods of sale or re-collateralization. Securities that are pledged to re-collateralization amount to ¥47,075 million and securities that are owned without disposal of this nature at the end of the fiscal year amount to ¥4,105 million.
2. The full amount of loans is outstanding to the government of Japan.
3. Collateral for exchange settlement and other transactions has been presented in the form of loans amounting to ¥184,058 million. Other assets include guarantee deposits of ¥17,138 million.
4. Overdraft contracts provide for making loans up to a specified limit, provided there are not violations of the provision of contracts, when loan requests are received from customers. The unexercised balance of loan commitments under these contracts is ¥11,900 million, and contract terms are one year or less.

Note that, since typically these contracts terminate without requests for overdrafts, the unexercised balance of loan commitments under these contracts will not necessarily have an effect on JTSB's cash flow. In addition, under systems related to these contracts, measures are taken to preserve the related loan assets, including the securing of repayment resources in the form of securities, cash, and other assets.

- |  |                |
|--|----------------|
| 5. Accumulated depreciation of tangible fixed assets:  | ¥3,971 million |
| 6. Total monetary claims on affiliates:  | ¥241 million   |
| 7. Total monetary obligations outstanding to affiliates:   | ¥7,133 million |
| 8. JTSB has accepted limitations on dividends of the surplus as prescribed by Article 18 of the Banking Act. |                |

Notwithstanding the provision of Article 445 (4) (Amounts of Stated Capital and Amounts of Reserves) of the Companies Act, in the case where JTSB pays dividends from the surplus, it records an amount equivalent to one-fifth of the amount of the deduction from the surplus as a result of the payment of such dividends of the surplus, as legal retained earnings.

In the subject fiscal year, JTSB recorded ¥31 million in legal retained earnings in relation to dividends from the surplus.

### Statements of Income

- |  |                |
|--|----------------|
| 1. The negative figure for interest on due from banks is due to the fact that as a consequence of the application of negative interest rates to Bank of Japan current deposits, interest on deposits with the Bank of Japan became negative on a net amount basis. |                |
| 2. Income related to transactions with affiliates  |                |
| Total income from trust transactions:  | ¥4,604 million |
| Total income from fees and commissions:  | ¥478 million   |
| Expenses related to transactions with affiliates   |                |
| Total expenses related to other businesses and other ordinary transactions:  | ¥0 million     |

## Statements of Changes in Net Assets

### 1. Types of shares issued and number

(Thousand shares)

Type of shares	Total number outstanding at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Remarks
Common share	1,020	—	—	1,020	None

Note: No treasury shares were held.

### 2. Dividends

#### (1) Dividends paid during the fiscal year

Date of decision	Type of shares	Total dividends	Dividends per share	Record date	Effective date
Taken on June 29, 2017 based on Article 319-1 of the Companies Act	Common share	¥158 million	¥155	March 31, 2017	June 30, 2017

#### (2) Dividends with a record date during the fiscal year, but whose effective date is after March 31, 2018

Date of decision	Type of shares	Total dividends	Dividends per share	Record date	Effective date
Taken on June 29, 2018 based on Article 319-1 of the Companies Act	Common share	¥193 million	¥190	March 31, 2018	June 29, 2018

Note: The source of funding for dividends is other retained earnings.

## Tax Effect Accounting Items

The breakdown of factors accounting for the accrual of deferred tax assets and liabilities is as follows.

Deferred tax assets	
Provision for retirement benefits	¥170 million
Provision for bonuses	124
Enterprise tax payable	53
Asset retirement obligations	40
Depreciation denied	30
Others	72
Subtotal of deferred tax assets	491
Valuation allowance	(36)
Total deferred tax assets	454
Deferred tax liabilities	
Prepaid pension expenses	80
Others	24
Total deferred tax liabilities	105
Net deferred tax assets	¥348 million

## Financial Instruments

### 1. Matters related to the status of financial instruments

#### (1) Policy on financial instruments

JTSB, as a trust bank specializing in the asset administration business, raises funds through borrowed money from trust account, which generates cash on a continuing basis.

In its fund management activities, JTSB invests in Japanese government bonds (JGBs), secured transactions collateralised by cash (reverse repo, eligible bonds for this type of transactions are JGBs, the same applies below) and loans to the Japanese government in order to secure collaterals to be pledged to its settlement system to facilitate the smooth flow of settlement operations. Also, if there are idle funds, these are used for deposits in the Bank of Japan or other institutions, call loans, secured transactions collateralised by cash, and loans to the Japanese government and JGBs. These fund management activities are not conducted to obtain capital gains, but, in principle, funds are invested in instruments with a remaining period to maturity of one year or less. Notwithstanding this, when permission to carry out collateral-holding operations is received from the Board of Directors, these funds are invested, within the scope of JTSB's asset-liability management (ALM) plans, in JGBs with maturities from more-than-one year to three years.

(2) Types of contents and risks associated with financial instruments

JTSB's financial assets, in addition to deposits in the Bank of Japan and other institutions, comprise loans to the Japanese government, call loans, and secured transactions collateralised by cash. As stated in the policy above, market risk is limited by confining operations within one year as a general rule. JTSB's policy for making call loans and secured transactions collateralised by cash is to restrain the size and content of such loans to a necessary minimum with the aim of minimizing credit risk.

On the other hand, JTSB's financial liabilities are primarily borrowed money from trust accounts and deposits. The balance of such liabilities is stable, and JTSB avoids liquidity risk by limiting its asset management operations to highly liquid financial instruments.

(3) Risk management relating to financial instruments

(a) Credit risk management

JTSB's principal credit risks arise in the management of idle funds generated by its asset administration business. JTSB has established a "Credit Risk Management Policy," which calls for restraint in the size and content of such investments. Moreover, the Corporate Risk Management Department sets various credit risk position limits based on the "Rules for Credit Risk Management," and monitors the observance of these limits on a daily basis.

(b) Market risk management

JTSB has established a "Market Risk Management Policy," which calls for strict limitation of market risk, and, based on this policy, aims for safe and secure management. In addition, the Corporate Risk Management Department set various market risk position limits based on the "Rules for Credit Risk Management," and monitors the observance of these limits on a daily basis.

JTSB's principal market risks arise from the effects of interest rate risk, and the principal financial instruments subject to this risk are loans to the Japanese government, call loans, and secured transactions collateralised by cash. To manage the risk of these financial instruments, JTSB employs the Basis Point Value (BPV) method (which measures the change in the value of these assets for each one basis point (0.01%) movement in interest rates) to conduct quantitative analysis and the management of interest rate risk. As of March 31, 2018, analyses based on the BPV method indicate that the interest rate risk for a one basis point movement in interest rates is ¥7 million. Please note that this movement in asset prices assumes that risk factors, excluding interest rate risk, remain unchanged, and does not take account of correlations between interest rates and other risk causal factors.

(c) Liquidity risk management

JTSB manages the idle cash generated by its asset administration business on a continuing basis and limits the choice of investment instruments to those with high liquidity as provided for in its "Policy for Liquidity Management." Accordingly, the level of liquidity risk is basically believed to be low; however, the Corporate Risk Management Department sets liquidity risk position limits based on its "Rules for Liquidity Risk Management" and monitors the observance of these limits on a daily basis.

(4) Supplementary explanation of fair value of financial instruments

The fair value of financial instruments is based on the market price of such instruments, but, when market prices are not available, prices based on reasonable estimates are reported. Since these estimates involve certain assumptions, in cases where assumptions are subject to change, the value of assets may also change.

## 2. Fair values of financial instruments

The differences between the carrying amounts on the balance sheets and fair values, as of March 31, 2018, are shown below. Those assets for which fair value is recognized to be extremely difficult to determine are not included (refer to Note 2).

(¥ million)

	Balance sheet amount	Fair value	Difference
(1) Cash and due from banks	13,177,699	13,177,699	—
(2) Call loans	350,000	350,000	—
(3) Receivables under securities borrowing transactions	51,246	51,246	—
(4) Loans and bills discounted	184,058	184,058	—
Total assets	13,763,003	13,763,003	—
(1) Deposits	7,840,589	7,840,589	—
(2) Borrowed money from trust account	5,898,261	5,898,261	—
Total liabilities	13,738,851	13,738,851	—

### Notes:

#### 1. Calculation of the fair value of financial instruments

##### Assets

##### (1) Cash and due from banks

Since due from banks comprises only deposits with banks without maturity dates and since the fair value closely approximates the book value, the book value concerned is recorded as the fair value.

##### (2) Call loans and (3) receivables under securities borrowing transactions

Since the contractual terms of these instruments are short (one year or less), and the fair value closely approximates the book value, the book value concerned is recorded as the fair value.

##### (4) Loans and bills discounted

Since JTSB's loans are short-term (one year or less) loans to the Japanese government, the fair value closely approximates the book value, and the book value concerned is recorded as the fair value.

##### Liabilities

##### (1) Deposits

Since all deposits are demand deposits, the amount that may be demanded on the date of the closing of accounts (book value) is regarded to be the fair value.

##### (2) Borrowed money from trust account

Since borrowed money from trust account is equivalent to demand deposits, the amount that may be demanded on the date of the closing of accounts (book value) is regarded to be the fair value.

#### 2. The balance sheet amounts of financial instruments that are recognized as extremely difficult to grasp their respective market values are as follows, which are not included in "Assets" in the financial product market values information.

(¥ million)

Category	Balance sheet amount
Unlisted stocks	320
Unlisted foreign securities	17
Total	337

Note: Because of the absence of market value quotes for these securities, their fair value is difficult to determine, and their fair value is not disclosed.



# Financial Data

## 3. Redemption schedule of monetary claims and securities with maturity dates after March 31, 2018

(¥ million)

	One year or less	Over one year to two years or less	Over two years to three years or less	Over three years to five years or less	Over five years
Due from banks	13,177,698	—	—	—	—
Call loans	350,000	—	—	—	—
Interest on receivables under securities borrowing transactions	51,246	—	—	—	—
Loans and bills discounted	184,058	—	—	—	—
Total	13,763,002	—	—	—	—

## 4. Repayment schedule of deposits and interest-bearing debt (liabilities) after March 31, 2018

(¥ million)

	One year or less	Over one year to two years or less	Over two years to three years or less	Over three years to five years or less	Over five years
Deposits	7,840,589	—	—	—	—
Borrowed money from trust account	5,898,261	—	—	—	—
Total	13,738,851	—	—	—	—

Note: Demand deposits and borrowed money from trust account, which are equivalent to demand deposits, are included in the "one year or less." Deposits include balances of current deposits.

## Transactions with Related Parties

### (1) Parent company and major corporate shareholders

(¥ million)

Type of company	Name of company	Percentage ownership	Relationship with related party	Type of transactions	Amount of transactions	Accounting item	Balance at end of period
Other affiliated company	Resona Bank, Limited	Percentage owned: 33.3%	Entrusts asset administration to JTSC	Re-entrustment fees, receipt of fees	5,083	Accrued income	45
						Deposits received	7,133

The terms of transactions and method of determination are as follows:

Notes: Fees for re-entrustment and other fees that are based on cost are decided through negotiations. "Amount of transactions" includes consumption taxes. "Balance at end of period" does not include consumption taxes.

### (2) Subsidiaries and affiliates, etc.

None

### (3) Other companies with indirect capital affiliation

(¥ million)

Type of company	Name of company	Percentage ownership	Relationship with related party	Type of transactions	Amount of transactions	Accounting item	Balance at end of period
Subsidiary of the parent company	Sumitomo Mitsui Trust Bank, Limited	—	Monetary assets and liabilities/ Entrusts asset administration to JTSC	Release of call funds (Note 1)	290,000	Call loans	290,000
				Re-entrustment fees, receipt of fees (Note 2)	20,450	Accrued income	877
						Deposits received	25,161

The terms of transactions and method of determination are as follows:

Notes: 1. Interest rates on call loans are set with reference to prevailing market rates. Since call loans are short-term market transactions, the outstanding balance of such loans as of March 31, 2016 is shown in the "Amount of transactions" column.

2. Fees for re-entrustment and other fees that are based on cost are decided through negotiations. "Amount of transactions" includes consumption taxes. "Balance at end of period" does not include consumption taxes.

### (4) Directors and other individual shareholders

None

#### Per share of common stock information

Net assets per share: ¥58,269.84

Net income per share: ¥471.31

#### Confirmation Statement from Management

I have confirmed that the financial statements (balance sheets, statements of income, and statements of changes in net assets) for the 18th period, covering the period from April 1, 2017 to March 31, 2018, are presented appropriately and that the internal auditing related to the preparation of these financial statements functioned effectively.

June 29, 2018

Yoshikazu Tanaka  
Representative Director and President

#### Auditors' Statement

The Company has received a report from independent accounting firm KPMG AZSA LLC. indicating that all material items in the financial statements pertaining to assets and income for the fiscal year (from April 1, 2017 to March 31, 2018) have been presented appropriately in accordance with Article 396-1 of the Companies Act.

#### Basel III Pillar 3 Disclosure Items

##### Composition of Capital Disclosure

Based on Article 14-2 of the Banking Act, the Company calculates its capital ratio as the basis for making judgments regarding the adequacy of its capital in light of its holdings of assets according to the formula for domestic banks (Financial Services Agency Notification No. 19 of 2006).

Please note that the Company has calculated its credit risk assets according to the standardized approach and its operational risk amount according to the Advanced Measurement Approaches.

# Financial Data

## Non-Consolidated Capital Ratio

### Basel III (Financial Services Agency Notification 7 of 2014)

(As of March 31, 2018)

(¥ million)

Items	End of period	Amounts excluded under transitional arrangements	End of previous period	Amounts excluded under transitional arrangements
<b>Core Capital: Instruments and reserves (1)</b>				
Directly issued qualifying common shares or preferred shares mandatorily convertible into common shares capital plus related capital surplus and retained earnings	59,241		58,954	
Of which, capital and capital surplus	51,000		51,000	
Of which, retained earnings	8,435		8,112	
Of which, treasury stock (-)	—		—	
Of which, planned distribution of income (-)	193		158	
Of which, other than above	—		—	
Subscription rights to acquire common shares or preferred shares mandatorily convertible into common shares	—		—	
Reserves included in Core Capital: Instruments and reserves	—		—	
Of which, general reserve for possible loan losses	—		—	
Of which, eligible provisions	—		—	
Eligible non-cumulative perpetual preferred shares subject to transitional arrangements included in Core Capital	—		—	
Eligible capital instruments subject to transitional arrangements included in Core Capital	—		—	
Capital instruments issued through the measures for strengthening capital by public institutions included in Core Capital	—		—	
Amount equivalent to 45% of land revaluation excess subject to transitional arrangements included in Core Capital	—		—	
Core Capital: Instruments and reserves (A)	59,241		58,954	
<b>Core Capital: Regulatory adjustments (2)</b>				
Total intangible fixed assets (excluding those relating to mortgage servicing rights)	12,422	3,105	9,397	6,264
Of which, goodwill (including those equivalent)	—	—	—	—
Of which, other than goodwill and mortgage servicing rights	12,422	3,105	9,397	6,264
Deferred tax assets (excluding those arising from temporary differences)	—	—	—	—
Shortfall of eligible provisions to expected losses	—	—	—	—
Capital increase due to securitization transactions	—	—	—	—
Gains and losses due to changes in own credit risk on fair valued liabilities	—	—	—	—
Prepaid pension costs	146	36	91	60
Investments in own shares (excluding those reported in the Net Assets)	—	—	—	—
Reciprocal cross-holdings in capital instruments issued by other financial institutions for raising capital that are held by the Bank	—	—	—	—
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	—	—	—	—

(¥ million)

Items	End of period	Amounts excluded under transitional arrangements	End of previous period	Amounts excluded under transitional arrangements
Amount exceeding the 10% threshold on specified items	2,343	585	1,918	1,278
Of which, significant investments in the common stock of other financial institutions	—	—	—	—
Of which, mortgage servicing rights	—	—	—	—
Of which, deferred tax assets arising from temporary differences	2,343	585	1,918	1,278
Amount exceeding the 15% threshold on specified items	—	—	—	—
Of which, significant investments in the common stock of other financial institutions	—	—	—	—
Of which, mortgage servicing rights	—	—	—	—
Of which, deferred tax assets arising from temporary differences	—	—	—	—
Core Capital: Regulatory adjustments (B)	14,912		11,406	
<b>Capital</b>				
Total amount of capital ((C)=(A)–(B))	44,328		47,548	
<b>Risk-Weighted Assets (3)</b>				
Credit risk assets	92,824		96,036	
Of which, total of items included in risk-weighted assets subject to transitional arrangements	3,728		7,604	
Of which, intangible fixed assets (excluding goodwill and mortgage servicing rights)	3,105		6,264	
Of which, deferred tax assets	585		1,278	
Of which, prepaid pension costs	36		60	
Of which, exposure to other financial institutions	—		—	
Of which, other than above	—		—	
Amount equivalent to market risk divided by 8%	—		—	
Amount equivalent to operational risk divided by 8%	46,980		46,263	
Credit risk-weighted assets adjustments	—		—	
Amount equivalent to operational risk adjustments	—		—	
Total risk-weighted assets (D)	139,804		142,300	
<b>Capital Adequacy Ratio</b>				
Capital Adequacy Ratio (C)/(D)	31.70%		33.41%	

# Financial Data

## Trust Assets and Liabilities

(¥ million)

Assets	March 31, 2017	March 31, 2018
Loans	—	—
Securities	100,693,580	109,179,760
Japanese government bonds	11,903,000	11,579,310
Regional government bonds	704,094	636,521
Short-term bonds	848,365	740,764
Corporate bonds	2,523,879	2,513,857
Stocks	61,192,367	68,820,070
Foreign securities	18,951,997	19,766,102
Other securities	4,569,876	5,123,133
Securities in investment trusts	42,087,460	49,134,666
Foreign securities in investment trusts	23,484,192	26,155,659
Trust beneficiary certificates	43,795,862	45,938,205
Trust securities	20,084,779	19,381,647
Monetary claims	7,466,617	9,449,313
Housing loan claims	1,654,334	3,482,636
Other monetary claims	5,812,283	5,966,677
Tangible fixed assets	192	192
Real estate	192	192
Other claims	1,769,082	1,572,719
Call loans	3,483,568	4,388,669
Loans to banking account	6,300,520	5,898,261
Cash and deposits	9,953,048	10,975,345
Deposits	9,953,048	10,975,345
Total	259,118,905	282,074,441

Liabilities	March 31, 2017	March 31, 2018
Money in trust	3,685,256	4,243,619
Monetary trusts other than money in trust	2,253,769	2,114,723
Monetary claims in trust	1,654,334	3,482,636
Composite trusts	251,525,545	272,233,462
Total	259,118,905	282,074,441

Notes: 1. Amounts less than ¥1 million are rounded down.  
2. Joint trusts and trusts administered by others: ¥— million  
3. Figures do not include any trusts with principal-guaranteed features.



**Japan Trustee Services Bank, Ltd.**  
**Annual Review 2018**

---

Issued: July 2018

By the Planning Department, Japan Trustee Services Bank

Address: 8-11, Harumi 1-chome, Chuo-ku, Tokyo 104-6107, Japan

Telephone: 03-6220-2071

Website: <https://www.japantrustee.co.jp>



**2018**