

The Master Trust Bank of Japan

# MTBJ Corporate Report 2018

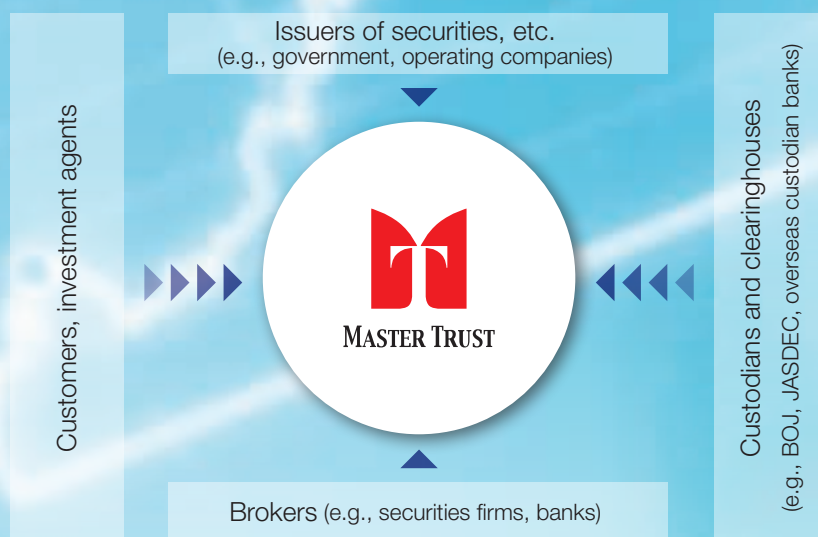


The Master Trust Bank of Japan, Ltd.

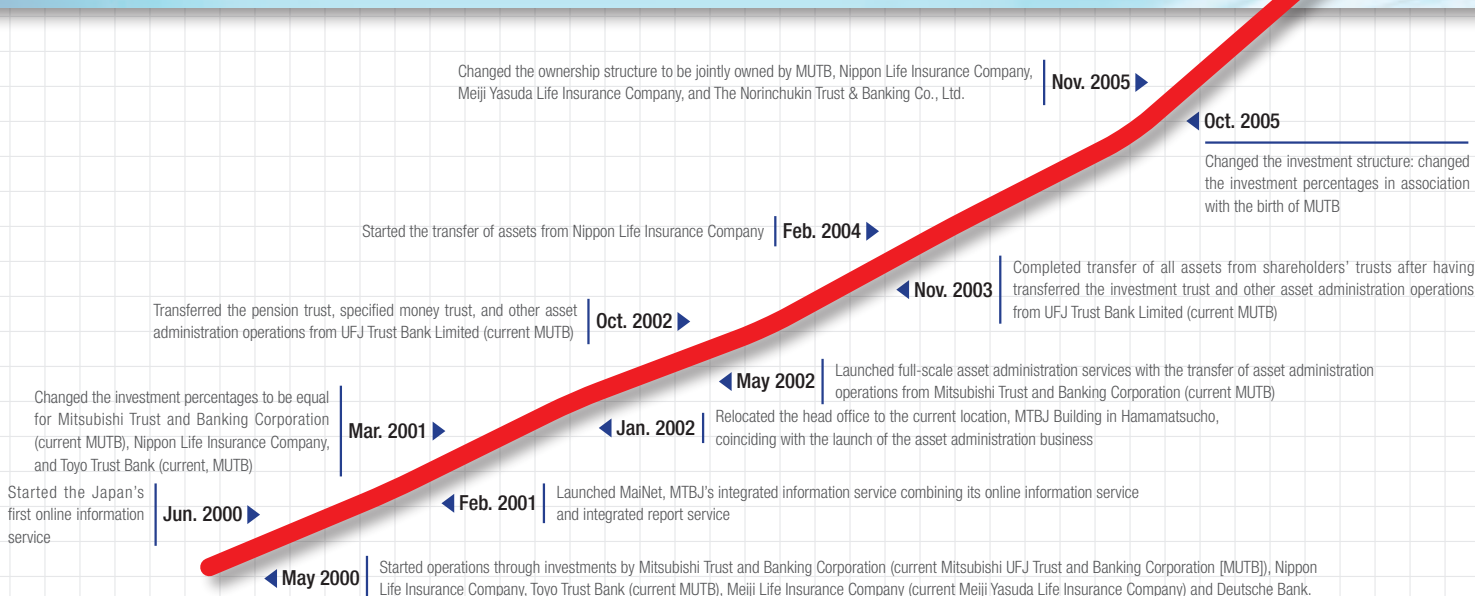
MASTER TRUST

# We aspire to be a leading custodian bank administration services of the highest quality

Our asset administration services consist of safely and securely administering money and securities deposited in our custody under contracts with customers in accordance with the legal frameworks of Japan and other nations, as well as settling securities trades and exercising voting rights according to the instructions of customers or their agents. To meet the requirements of customers for investing in new markets, adopting new investment approaches, using value-added services, and improving security and efficiency, we will continue our large-scale IT investments while striving to provide more sophisticated high-quality services by developing our employees and efficiently operating our organization.



## Changes in Assets Under Administration (AUA)



that efficiently provides integrated asset by global standards.



## TOPICS

### Sep. 2017 **Transfer of investment trust assets**

In association with the succession to the securities investment trust trustee business of Shinkin Trust Bank, Ltd., by Mitsubishi UFJ Trust and Banking Corporation (MUTB), the assets were transferred by way of MUTB re-entrusting them to MTBJ.

### Apr. 2018 **Organizational change--establishment of the Osaka Asset Services Division**

In order to enhance our business continuity structure in the event of a wider-area disaster in the Tokyo metropolitan district, we established an independent division in the Kansai region, the Osaka Asset Services Division (location: Suita-shi, Osaka), which were the first such initiatives by a trust bank specialized in asset administration. We will enhance the system of dual operations—parallel operations in Tokyo and another location—mainly for businesses of high priority for business continuity, such as cash and securities settlement.

### May 2018 **Response to Shortening of JGB Settlement Cycle**

In response to the Shortening of JGB Settlement Cycle to T + 1, which was aimed at reducing settlement risk, maintaining and enhancing competitiveness among global markets, and then boosting the liquidity, stability, and efficiency of the market, we smoothly transitioned to the new cycle after participating in the development of the industry's market rules and conducting tests in advance.

### Jul. 2018 **Organizational change--establishment of the Investment Operations Outsourcing Service Division**

With the aim of strengthening administrative services for middle- and back-office operations outsourced by asset management companies, we newly established the Investment Operations Outsourcing Service Division dedicated to the services.

# Management Goals

## Management Creed

### Response to Client Needs

We give the highest priority to maintaining a relationship of trust and reliability with our clients, and we will make every effort to accurately and promptly respond to the diverse needs of clients in Japan and clients overseas.

### Efficient Provision of Integrated Asset Administration Services

We will proactively engage in developing new fields and new technologies in the asset administration business, and we will aim to efficiently provide integrated asset administration services of the highest quality.

### Strict Compliance with Laws and Regulations, etc. and Highly Transparent Management

We will strictly comply with laws, regulations, and other applicable rules, and will conduct highly transparent, fair and open management, and thus, we will win the trust and confidence of the general public.

### Proper Risk Management

We will strengthen our corporate values through the development of our business and through proper risk management, and we will disclose our corporate information in a timely and appropriate fashion, thereby establishing steadfast trust in our company.

### Contribution to Society

We will contribute to the further development of the asset administration business, and thus, we will contribute to the realization of the sustainable growth of society through our pro-environment corporate activities.

### Improvement of Work Environment for Enhancement of the Expertise of Our Staff

We will continue to provide our staff with opportunities and a work environment that allow our staff to enhance their expertise and perform at their full potential.

## Management Vision

We will contribute to the further development of the asset administration business and provide services of the highest quality as a specialized asset administration bank.

## Image of Our Goals

A leading custodian bank that efficiently provides integrated asset administration services of the highest level by global standards

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## ■ Customer-Oriented Business Operation

Mitsubishi UFJ Financial Group, Inc. (MUFG) formulated and announced the MUFG Basic Policy for Fiduciary Duties as common guidelines of the Group so as to enforce its customer-oriented undertakings. The Master Trust Bank of Japan, Ltd. (MTBJ) will further improve its customer-oriented undertakings based on this Policy.

MUFG Basic Policy for Fiduciary Duties  
(<https://www.muftg.jp/english/profile/governance/fd/>)

Initiatives of The Master Trust Bank of Japan, Ltd.  
([https://www.mastertrust.co.jp/company/objective\\_f.html](https://www.mastertrust.co.jp/company/objective_f.html) (Japanese only))

## ■ Corporate Slogan

*Be professional*

MTBJ has the corporate slogan **“Be Professional.”**

By all of its officers and employees sharing this corporate slogan, The Master Trust Bank of Japan, Ltd., aims to become a specialized asset administration bank of customers’ true choice with each employee growing to become a professional highly evaluated in the market, thereby boosting the quality of MTBJ’s asset administration services.



# Corporate Overview

## Name and Location of the Business Office

Company Name The Master Trust Bank of Japan, Ltd.

Location of the Business Office MTBJ Bldg., 2-11-3 Hamamatsucho, Minato-ku, Tokyo JAPAN 105-8579

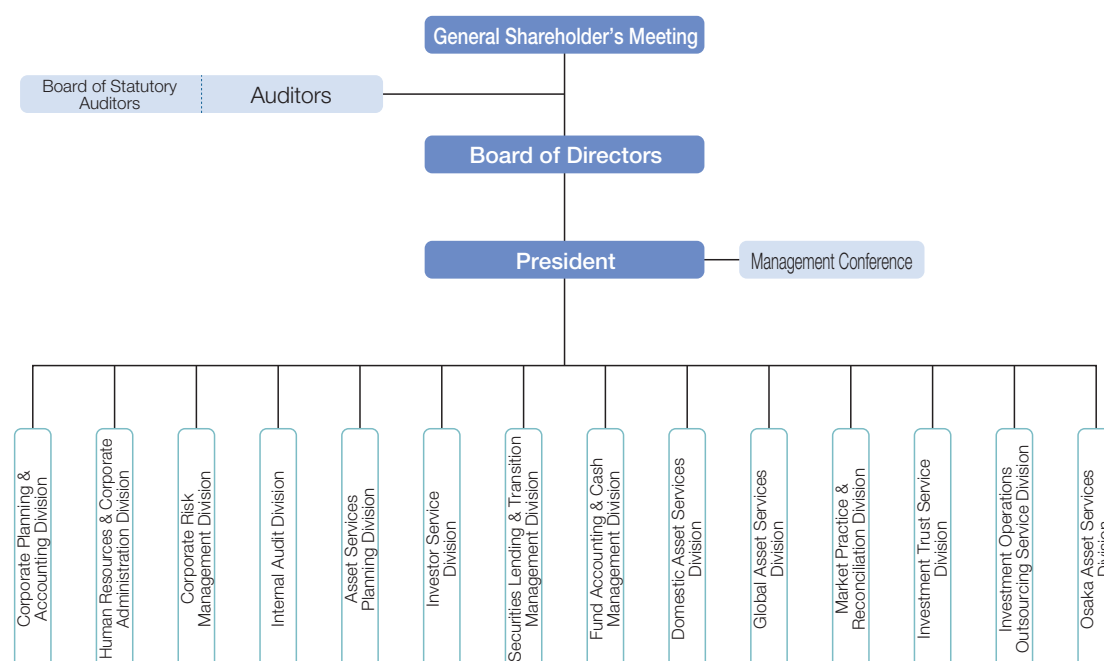
## Officers

(as of Jun. 30, 2018)

Appointment	Full Name	Appointment	Full Name
Representative Director, President	Hisashi Ito	Director (part-time)	Taro Fujimoto
Representative Director, Deputy President	Tetsuo Kushibe	Director (part-time)	Seiya Kai
Managing Director	Masatoshi Kaneko	Corporate Auditor	Katashi Shimada
Managing Director	Ken Iiyama	Corporate Auditor (part-time)	Toshiya Narazaki
Director	Daizo Naito	Corporate Auditor (part-time)	Naoki Akiyama
Director (part-time)	Eiji Ihori	Managing Executive Officer (Jomu Shikko-Yakuin)	Tsuyoshi Ueno
Director (part-time)	Takayuki Yasuda		

## Organization Chart

(as of Jul. 2, 2018)



## List of Shareholders

(as of Jun. 30, 2018)

Stockholder	Number of Shares	Shareholding Ratio
Mitsubishi UFJ Trust and Banking Corporation	55,800	46.5%
Nippon Life Insurance Company	40,200	33.5%
Meiji Yasuda Life Insurance Company	12,000	10.0%
The Norinchukin Trust and Banking Co., Ltd.	12,000	10.0%
<b>Total</b>	<b>120,000</b>	<b>100.0%</b>

## Credit Rating

(as of Jun. 30, 2018)

Rating	Long-Term	Short-Term
Japan Credit Rating Agency, Ltd. (JCR)		
Standard & Poor's (S&P)		



# Corporate Governance System

## ■ ■ Basic Approach to Corporate Governance

MTBJ establishes the corporate governance system that centers around the Board of Directors and the Board of Statutory Auditors. Furthermore, with a majority of the Board of Statutory Auditors being external Corporate Auditors, we have external viewpoints that strengthen corporate governance.

## ■ ■ Decision-Making Process and Functions of the Board of Directors

The Board of Directors, which comprises all Directors, decides on MTBJ's business execution and oversees the execution of duties by Directors. In addition, we have the Management Conference as an organ for discussing and deciding on the policy and other matters concerning overall business management based on the basic policy set by the Board of Directors. The Management Conference comprises the Directors with special titles and all Executive Officers. Managing Directors, Corporate Auditors, and others may attend meetings of the Management Conference and express their opinions.

## ■ ■ Functions of the Board of Statutory Auditors/Corporate Auditors

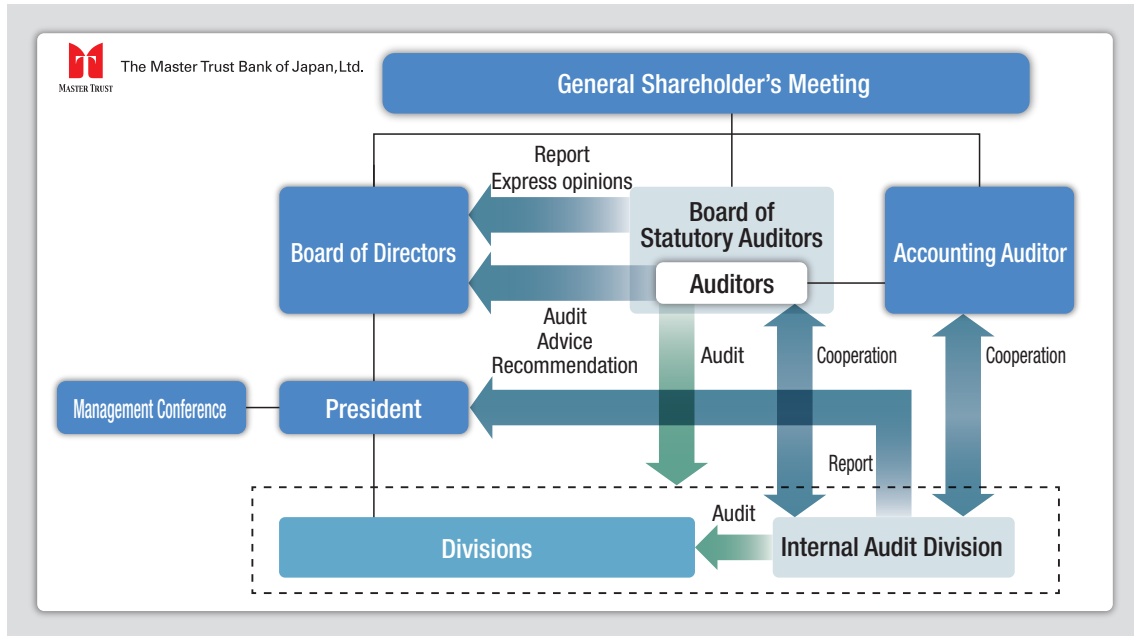
The Board of Statutory Auditors, which comprises all Corporate Auditors, decides on the audit policy and audit plans, monitors and validates whether an accounting auditor maintains independence, and appropriately conducts audits. Corporate Auditors attend meetings of the Board of Directors and other organs and state their opinions where necessary. In addition, they audit the process of corporate decision-making and the state of execution of duties by Directors through the validation of reports received from the accounting auditor and others, as well as the examination of operations and the assets of the Company.

## ■ ■ About Internal Audits

We have the Internal Audit Division as an organization that is independent of the audited divisions. The Division validates and evaluates the appropriateness and effectiveness of risk management, internal controls, and governance processes of audited divisions and provides recommendations for improvement of issues. The results of audits are reported to each Director and Corporate Auditor and regularly reported to the Management Conference and the Board of Directors.



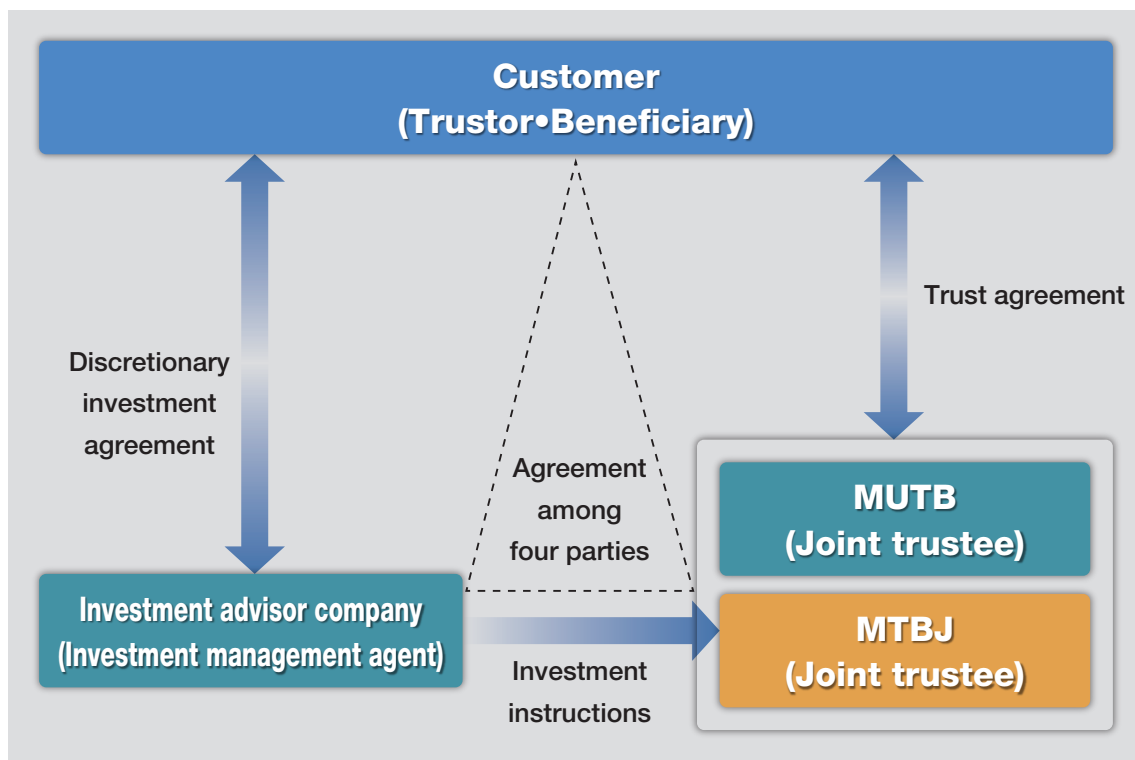
## ■ Governance Structure



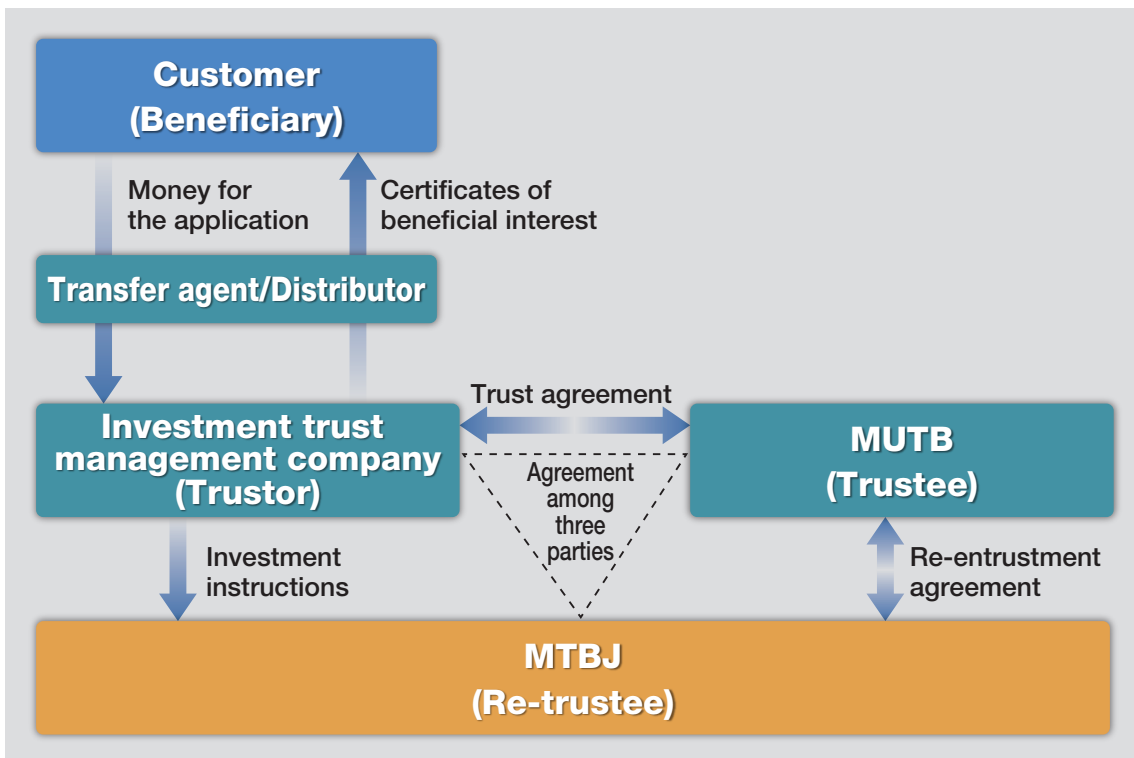
# Roles of MTBJ in Asset Management in Japan

MTBJ, which was founded in May 2000 as the Japan's first trust bank specialized in the asset administration business, strives to efficiently provide integrated asset administration services of the highest quality.

## ■ Chart of Joint Trustee Scheme (Tokkin with investment advisory)



■ ■ Chart for Re-Entrustment Scheme (contract type investment trust)



- Responding to increasingly diverse and complex investment markets
- Providing Optimum Solutions Based on the Needs of Customers
- Provision of value-added services associated with asset administration
- Better communication with customers

# Integrated Asset Administration Services of the Highest Quality



## ■ ■ Responding to increasingly diverse and complex investment markets

### Foreign securities markets

Investment in foreign securities including emerging markets is increasingly becoming active and diverse. Currently, MTBJ invests in approx. 90 countries\*<sup>1</sup> with foreign securities assets under administration reaching approx. 88.8 trillion yen.

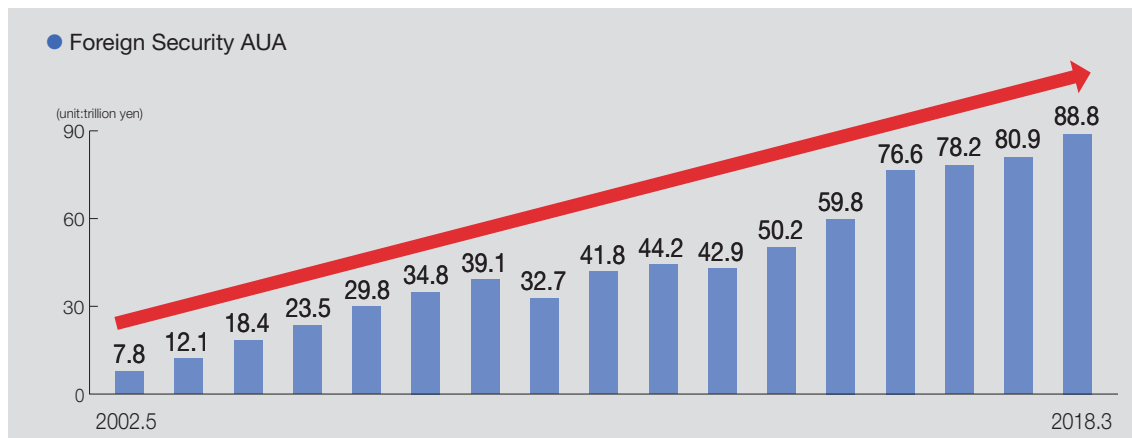
MTBJ has a dedicated division to investigate and monitor laws and regulations (including tax systems) of investing countries, and takes swift action.

MTBJ uses various overseas custodians, in addition to the network of overseas offices of Mitsubishi UFJ Financial Group, Inc. (MUFG). We select overseas custodians by assessing their credit risk, internal control system, administrative capability and other aspects, as well as conducting comprehensive reviews through field inspections and meetings. Also, we conduct assessments and physical inspections on an ongoing basis.

Furthermore, we are working to adopt CLS\*<sup>2</sup> for the purpose of reducing the risk of not being able to settle foreign exchange transaction between two currencies simultaneously due to different time zones (Herstatt risk).

\*1: These include investment markets of depositary receipt.

\*2: Continuous Linked Settlement



### Meeting risk management needs in association with investment market expansion

On the back of growing investment in foreign securities and alternative assets (non-traditional assets) through holding of foreign investment trusts by institutional investors, the needs for more accurately capturing investment risk are increasing. To meet the risk management needs of institutional investors, MTBJ offers look-through data\* necessary for calculating risk amounts under Basel and other regulations and provides reports.

\*Look-through data are data that disclose individual assets and liabilities held by funds.

### Derivatives

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In order to meet the rapidly growing needs for investing in derivatives products and ensure thorough management, we are working to enhance our management capabilities by actively using cutting-edge systems in the world.

In addition, when our customers invest in derivatives products, we provide them with support, such as consultation prior to starting trades and coordination with securities firms with whom they are trading.

#### Assistance for ISDA membership and assistance for ISDA agreements

Since the global financial crisis triggered by the subprime mortgage problem, various regulatory reforms for OTC derivatives trades have been implemented across the globe. MTBJ, which is the only ISDA\*member Japanese bank specialized in asset administration, strives to provide timely services to its customers by appropriately capturing developments in global standards for derivatives trades that are constantly changing.

It is necessary to enter into an ISDA Master Agreement in order to smoothly execute OTC derivatives trades.

We assist customers in turning their wide-ranging investment needs into reality by providing consultation services in adjusting the details of the agreement based on our abundant know-how gained through various individual cases.

\*ISDA stands for International Swaps and Derivatives Association, an international industry association established in the U.S. in 1985.

#### Margin requirements for OTC derivatives trades

The Group of G20 nations has established various margin requirements aimed at reducing systemic risk (risk of chain reaction collapses), counterparty risk (risk of a counterparty defaulting on payments) and other risks for over-the-counter (OTC) derivatives, which emerged after the collapse of Lehman Brothers in 2008.

Specifically, it is mandatory in Japan and the US to clear standardized trades, such as interest rate swaps, through a central counterparty clearinghouse (CCP). In response to this, MTBJ has established a system that enables the clearing of interest rate swaps through the Japan Securities Clearing Corporation and other domestic and foreign CCPs.

On the other hand, counterparties are required to exchange margins for OTC derivatives trades not cleared through CCPs.

#### Collateral administration services for initial margin and variation margin

There are two types of margins required in OTC derivatives trades: initial margin (IM) to cover losses in the event of default of a counterparty and the variation margin (VM) that is requested based on daily changes in the market. The rules require counterparties to safeguard IM by using a trust or other means. Therefore, in time for the application of the rules to Phase 1\* counterparties on September 1, 2016, we launched a trust product for that safeguarding purpose. In addition, we are working to provide agency services for calculating and settling margins on behalf of financial institutions that are to be covered by the rules from September 1, 2020. As for VM, on February 15, 2016, we started offering collateral management services in which we undertake a series of administrative tasks, such as calculation and exchange of collateral funds.

\*Financial institutions with notional amount outstanding of 3 trillion dollars in the US and 420 trillion yen in Japan

## ■ ■ Providing Optimum Solutions Based on the Needs of Customers

### Handling middle- and back-office operations outsourced by asset management companies

MTBJ's high-quality services, which leverage the know-how as trustee for invest trust it gained over many years since it launched investment operations outsourcing services for trust, including net asset value (NAV) calculation for the first time in Japan, are well received by not only investment trust management companies already using our services but also foreign affiliated investment trust management companies expanding into Japan and investment management companies newly entering the investment trust business. In light of the growing need for outsourced services, MTBJ established a framework for providing, in addition to NAV calculation, wide-ranging investment operations outsourcing services for investment trust covering trade processing and various reporting services. As of March 2018, MTBJ administers approx. 1,720 funds with a principal outstanding of approx. 25 trillion yen. Also, we started providing investment operations outsourcing services for discretionary investment management companies, such as report preparation services, to those companies. In July 2018, we newly established the Investment Operations Outsourcing Service Division dedicated to these services to strengthen the framework for providing high-quality investment operations outsourcing services that leverage our high level of expertise as a trust bank specialized in asset administration. Under this framework, we will strive to meet the expectations of our customers.

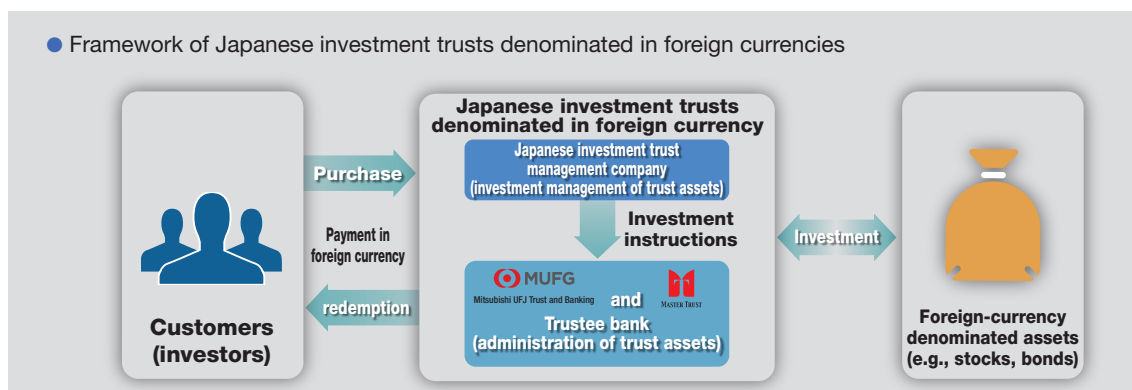
### Offering Japanese investment trusts denominated in foreign currencies

MTBJ started offering Japanese investment trusts that can be subscribed and redeemed in foreign currencies as Japan's first to meet the increasingly diversified needs of investing in foreign-currency denominated assets due to the low-interest-rate environment in Japan. (November 2016)

Traditionally, investment in foreign-currency denominated assets was generally made by purchasing either a yen-denominated Japanese investment trust that invests in foreign-currency denominated assets or a foreign investment trust established overseas. This product enables customers to purchase a Japanese investment trust in a foreign currency they already have.

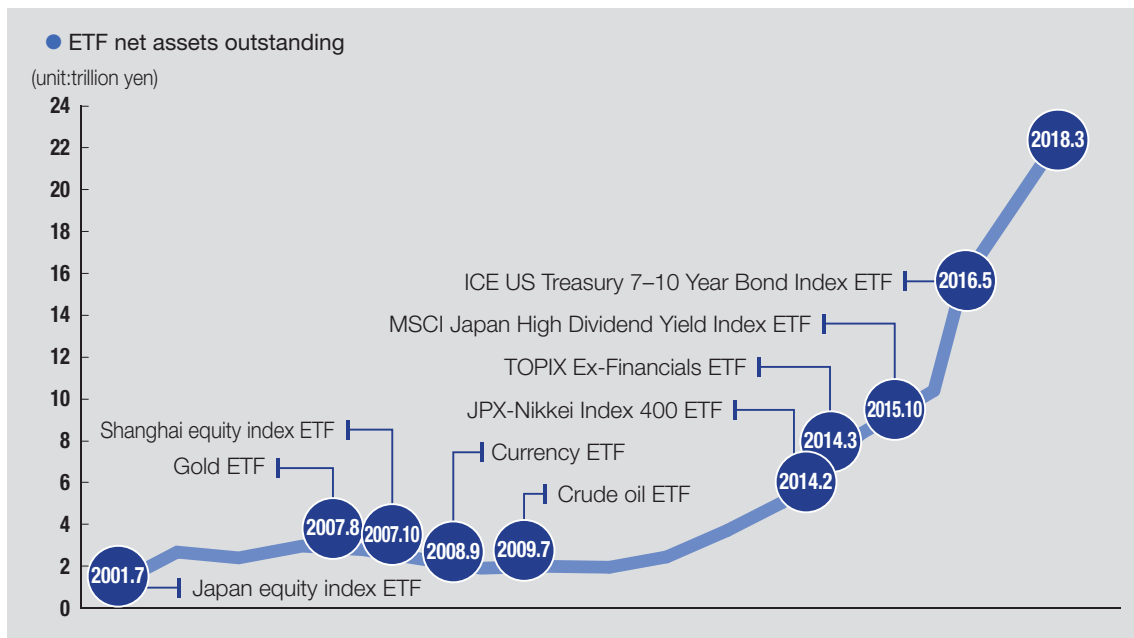
This product widens the choices of investors as it provides the benefits of reducing foreign exchange costs and the application of tax treaties, in addition to the implementation of operations, such as subscription and redemption, NAV calculation, disclosure, and other practices under Japanese laws (e.g., Act on Investment Trusts and Investment Corporations). We are also experienced in establishing Tokkin funds denominated in foreign currencies.

#### ● Framework of Japanese investment trusts denominated in foreign currencies



Various ETF administration services

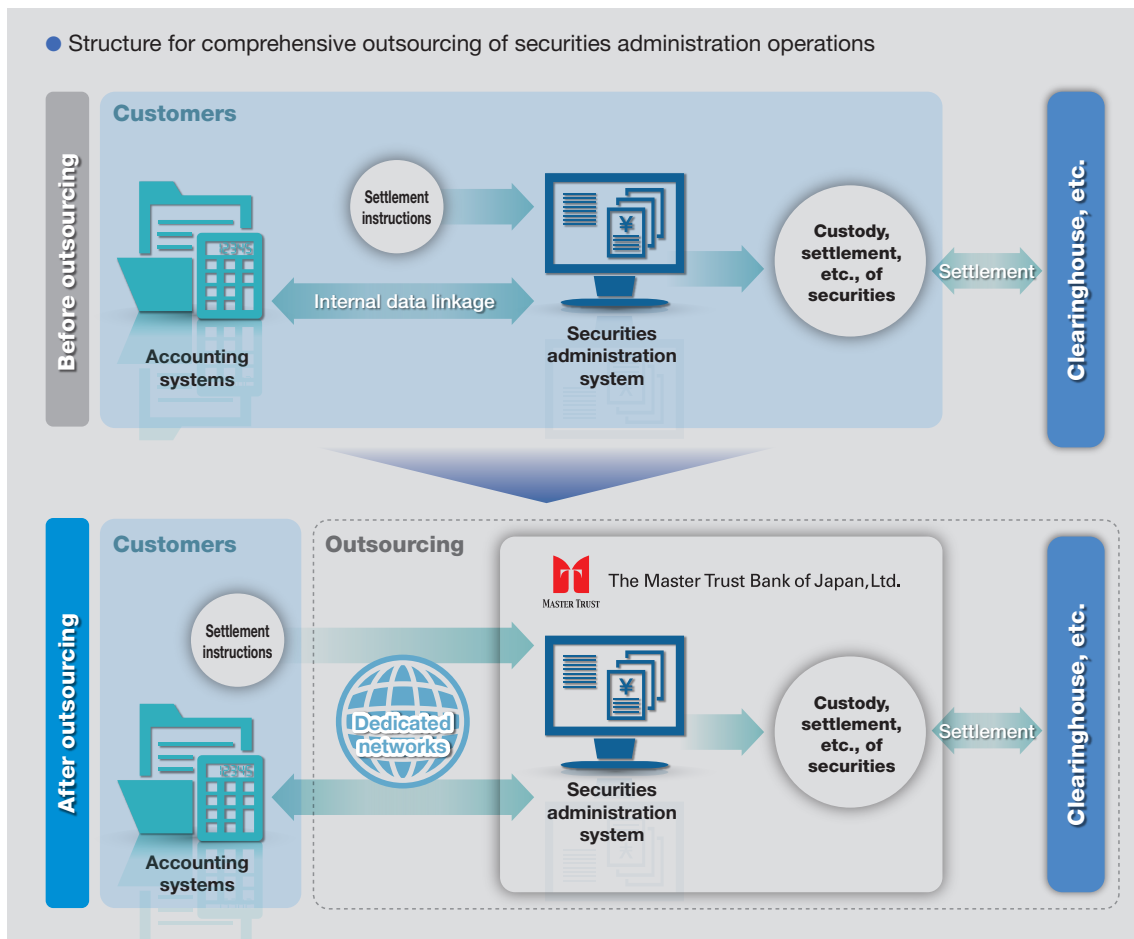
Amid the expansion of the exchanged traded fund (ETF) market, we remain committed to the market and, as of the end of March 2018, administer 70% of the net assets outstanding of Japanese ETFs. Since MTBJ became the trustee of a physical ETF linked to the Japanese stock index in July 2001, it has accumulated ETF administration know-how and improved IT systems, serving as the trustee of the gold ETF, Shanghai stock index ETF, and other ETFs, which include the entrustment of the JPX-Nikkei Index 400 ETF in February 2014, TOPIX Ex-Financials ETF in March 2014, MSCI Japan High Dividend Yield Index ETF in October 2015, and ICE US Treasury 7–10 Year Bond Index ETF in May 2016. We will continue to cater to the needs of customers for establishing pioneering ETFs.





Comprehensive service for the needs of securities administration operations outsourcing--initiatives for enhanced securities administration services

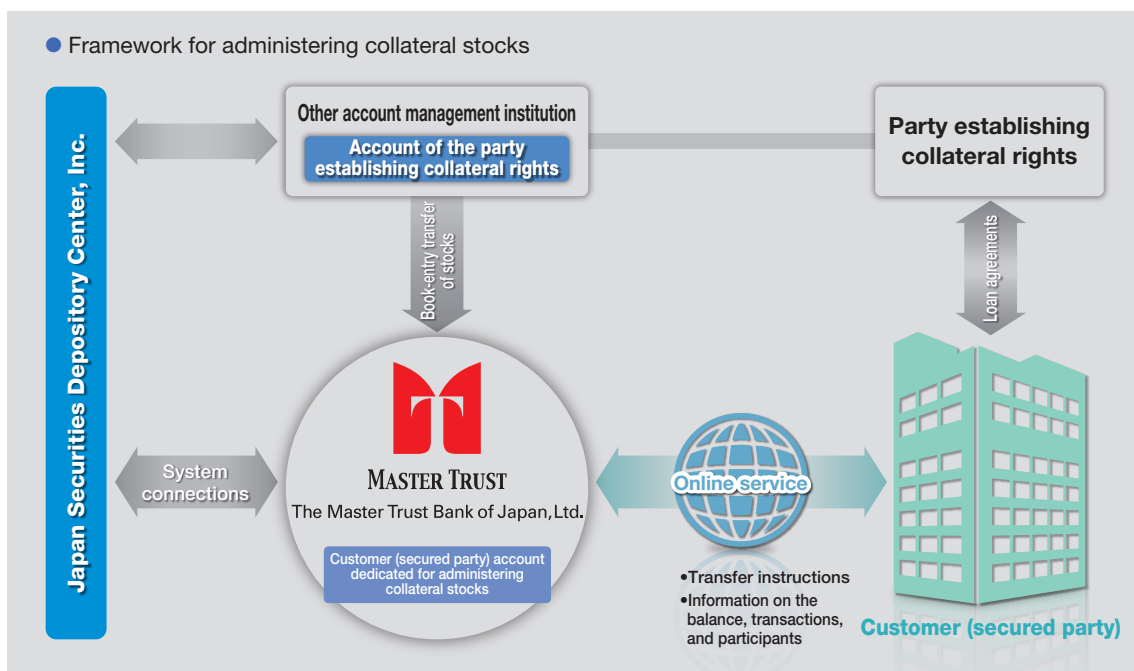
In addition to securities administration centered on custody and settlement of securities, which we have been doing, we will undertake account processing, internal/external report preparation, and other operations related to securities administration on behalf of our customers. This would enable our customers to reduce investment in IT systems required because of changes to the legal framework concerning securities, as well as costs arising from a review of operations. MTBJ started offering these services in full scale in April 2005, leveraging its securities administration and reporting know-how gained in the trust business. Responding to the wide-ranging needs of our customers, we are actively undertaking outsourced securities administration operations.



## Integrated Asset Administration Services of the Highest Quality

### Collateral stock administration services--the first specialized asset administration bank to provide such services

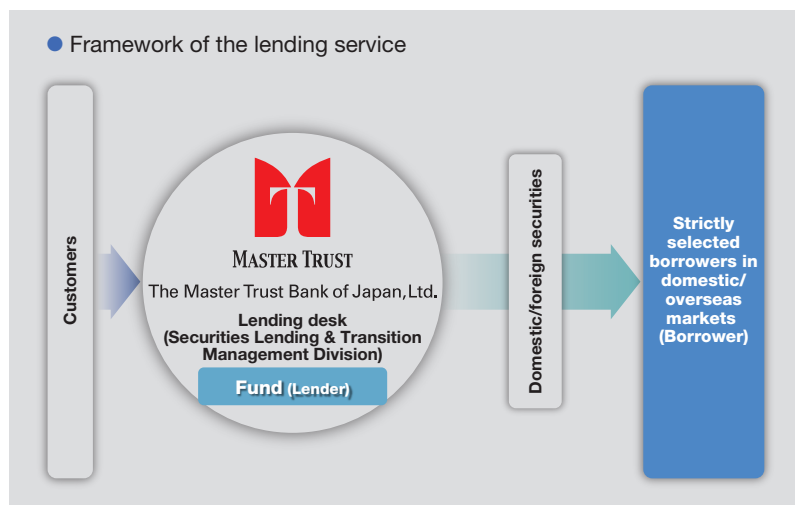
In time for the shift to paperless collateral transactions in association with the dematerialization of stock certificates in January 2009, we have independently developed schemes for administering collateral stocks under the new book-entry transfer system and started offering full-scale services of administering collateral stocks for loan and other operations of financial institutions, becoming the first specialized asset administration bank to provide such services. Specifically, we provide online services for settlement and custody of collateral stocks based on transfer instructions from customers. In addition, we provide functions and information necessary for administration of collateral stocks, including information on the settlement status, balance, transaction and the party which established the collateral rights (participant). We will continue our efforts to improve the quality of securities administration services and expand the scope of services.



## ■ Provision of value-added services associated with asset administration

### Securities lending service--opportunities for additional revenues

This service involves MTBJ loaning out securities in markets with limited risks on behalf of customers with the fees earned from the lending contributing to higher revenues for customer funds. MTBJ has established a leading position in the securities lending market, and our lending desk professionals with abundant experience and know-how execute lending operations in line with customers' management policy. Also, MTBJ strictly manages counterparty risk. MTBJ provides this service for all of four asset classes: domestic bonds, domestic stocks, foreign bonds, and foreign stocks, to match customers diversifying needs.

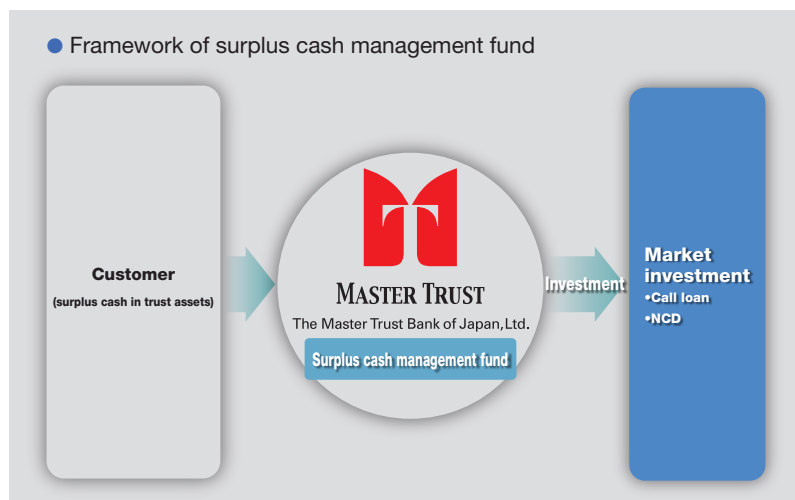


### Surplus cash management fund--higher returns and investment efficiency of customers

A surplus cash management fund is MTBJ's unique product designed for boosting investment returns for surplus cash portions in trust assets by centralizing and enhancing the function of managing surplus cash.

Putting together surplus cash in pension investment fund trusts and pension *tokkin*, and manage them together in a surplus cash management fund, provide the fund the efficient liquidity to invest in term products.

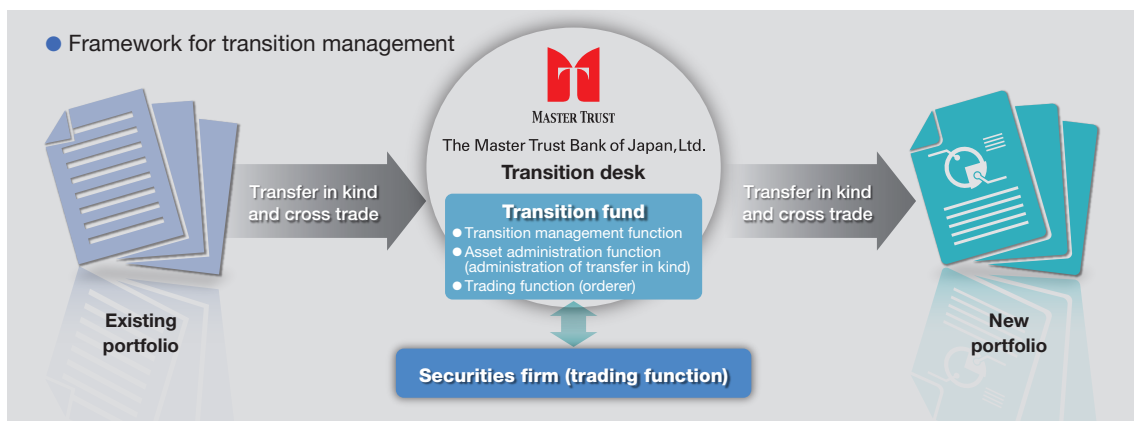
This is another example of our strive for further Investment returns of efficiency.



## Transition management service--safe and efficient asset transition

Transition management service supports safe and efficient transition for customers' assets at times of switching funds in association with reviewing investment managers, investment styles, policy asset mix, and other aspects of the assets by reducing trade costs and managing exposures and tracking errors during the transition.

Among other types of transfer transactions, MTBJ, the first specialized asset administration bank in Japan that has established a dedicated desk for transition management, provides high-quality services based on abundant experience.



## ■ Better communication with customers

### About MaiNet--providing information services with robust security measures in place

MaiNet (Master Trust Information Network) is the nickname of MTBJ's information service. MaiNet provides the following five online services depending on customers' subscription types. To prevent information leaks, we take security precautions using electronic certifications.

MaiNet can be accessed by clicking the MaiNet login button on the MTBJ website (<https://www.mastertrust.co.jp/>).

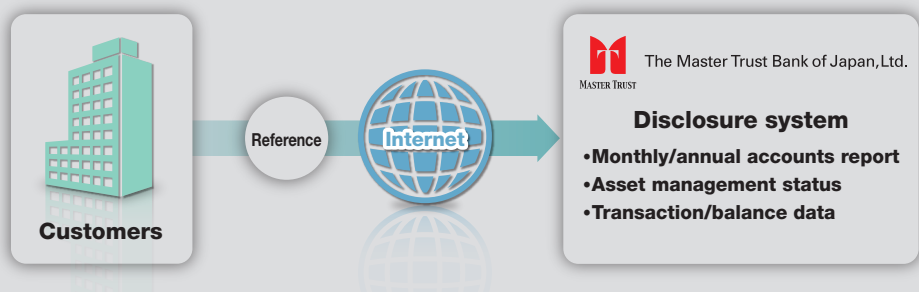
#### (1) Report search service--monthly/annual accounts reports

Since February 2012, monthly/annual accounts report and other reports we provided in paper form are available in PDF and other electronic media forms via MaiNet. In February 2013, we added the functions of an electronic signature and timestamp providing third-party assurance that electronic media are not falsified, and we are shifting to paperless monthly/annual accounts reports (discontinuation of paper reports) for customers who have consented to it. In addition, in March 2014, we pushed forward the start time from which the service is available and took other actions to enhance convenience in response to opinions and requests of customers.

#### (2) Data-on-demand service--providing detailed data of assets administered by MTBJ

This service allows customers to obtain data on assets administered by MTBJ, such as asset management status and transaction/balance via MaiNet. In 2012, we significantly expanded the menu and improved operability of ready-made information and customized information, which we started providing as the web information disclosure service in 2005, renewing it as a data-on-demand service. After the renewal, we continue our efforts to expand the breadth of information we provide.

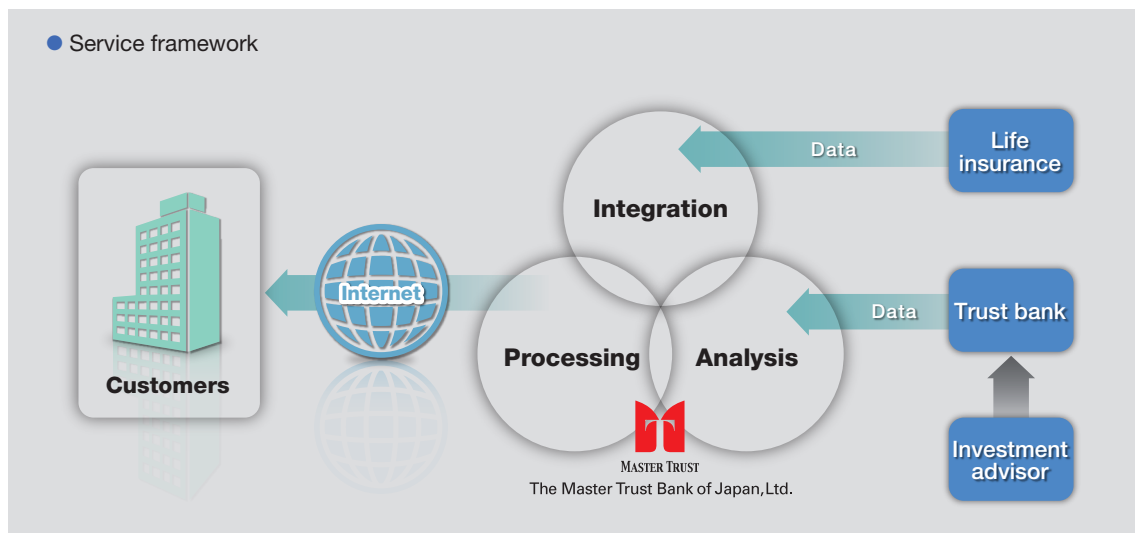
#### ● Framework of report search service, data-on-demand service



## Integrated Asset Administration Services of the Highest Quality

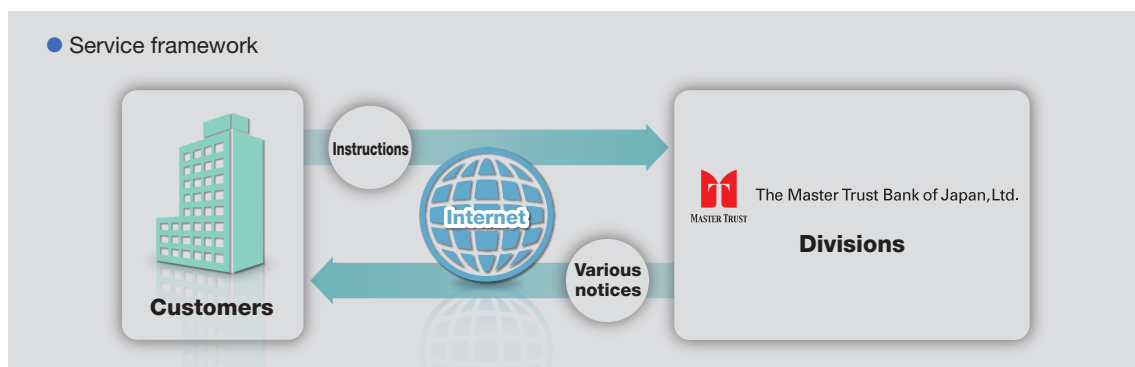
### (3) Online information service (information integration service)—providing asset management information of multiple asset administration organizations in an integrated manner

MTBJ puts together, integrates, processes, and analyzes management information of pension funds and other assets administered by multiple asset administration organizations (trust banks, life insurers), and then provides the information via MaiNet to employees' pension funds, corporate pension funds and other customers. Since the launch of the Japan's first service in June 2000, we have catered to wide-ranging needs of customers by offering various menus through multiple development phases. We also pay attention to customers' cost performance by adopting a cafeteria program in which they can select only the services they truly require.



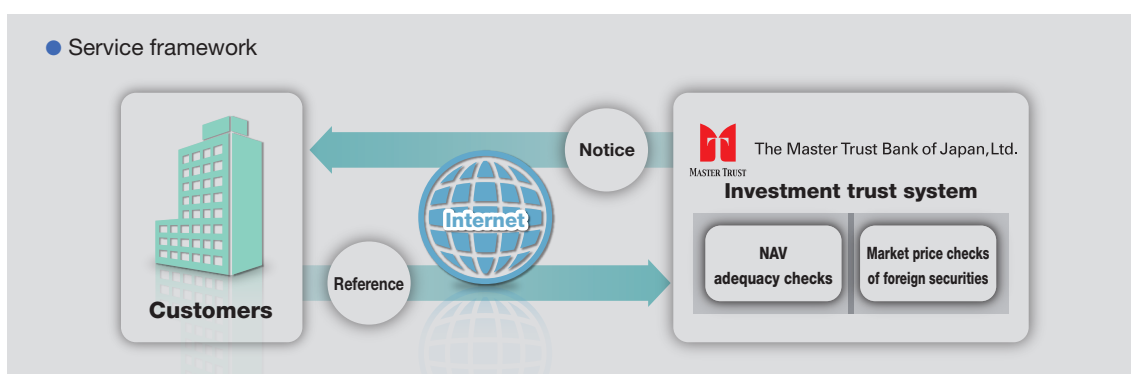
### (4) Communication service—providing a platform for interactive information exchange between customers and MTBJ

This service allows MTBJ divisions and customers to directly exchange information via MaiNet: customers submit written instructions, and MTBJ divisions send various notices via MaiNet. The communication service launched in 2012 with significantly improved operability, renewing the file exchange function under the Web information disclosure service, which we launched in 2005. We strive to enhance convenience for customers, such as by increasing the types of instructions we receive from customers.



**(5) Service of checking market prices of foreign securities and NAV—providing the results such as volatility**

Since August 2015, ahead of others in the industry, we provide the service of checking market prices of foreign securities and net asset value (NAV) of each investment trust for the day and timely reporting of the results to investment trust management companies via MaiNet every day. We check volatility, divergence, and the like compared to the NAV index used as a benchmark by a fund, NAV of the previous business day, and historical prices of NAV and, as for market prices of foreign securities, market price of the previous business day, execution price, and market price adopted by other investment trust management companies.



**Foreign securities market information service—providing extensive and specialized information in a timely manner**

MTBJ delivers the email *MTBJ Newsletter* that provides investment managers investing in foreign securities with market information, such as regulations on securities settlement and foreign exchange, as well as changes in tax systems. On the back of market and tax systems that are increasingly more complex and various country risks, the needs for timely and detailed overseas market information are growing. Responding to this, MTBJ strives to improve the speed of the *MTBJ Newsletter* and creates the *MTBJ Newsletter Report* that puts together information on specific market topics. MTBJ also provides information on corporate action by integrating information obtained through multiple custodians and provides website functions for information reference, giving instructions for exercising voting rights and checking the progress of the instruction data. MTBJ delivers some of the information in English for overseas investment managers.



## Framework for reflecting Voice of Customer

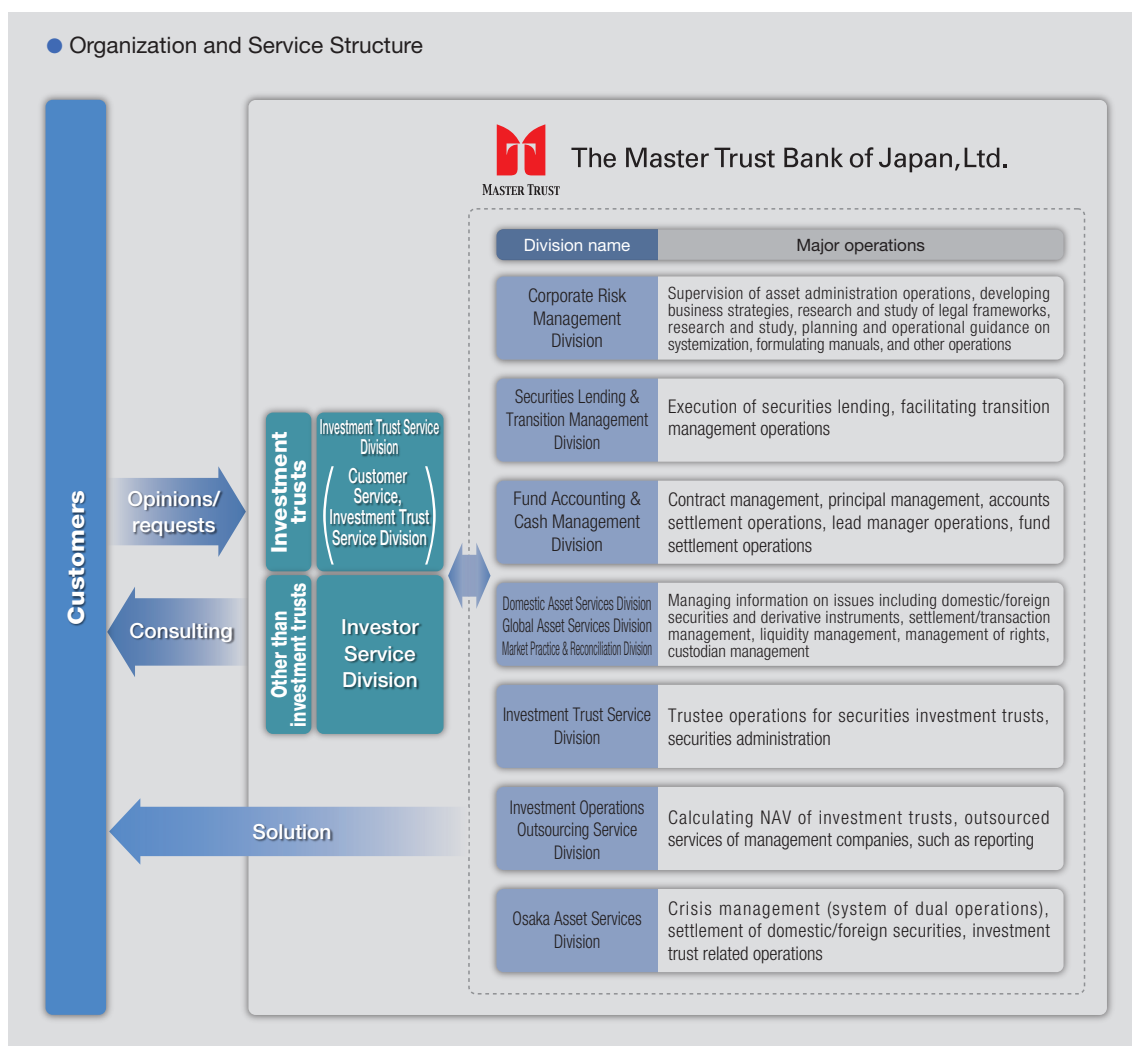
We undertake various initiatives to incorporate opinions and requests of customers to provide better services and improve operational quality. These initiatives include the following.

### (1) Customer desk

Dedicated staff with sophisticated know-how and practical experience are placed in the Customer Service, Investment Trust Service Division, and the Investor Service Division to serve as the point of contact with customers for conducting market research and consulting sales related to asset administration operations. The Customer Service, Investment Trust Service Division, and the Investor Service Division handle investment trust services/products and other services/products, respectively. In providing services and solutions, MTBJ is organized by service/function such as fund administration, domestic securities administration, and foreign securities administration. Each of the above-mentioned two units acts as the point of contact with customers for these services/products. They carefully listen to customer inquiries/opinions and various requests on asset administration, such as new products, new schemes, and responses to the revision of systems, and provide consultation and other services. In order to act in a systematic manner, we use a CRM\* system dedicated to managing information on customer communication to accumulate opinions and requests received from customers. We share the information among management and relevant departments and analyze trends. Based on the information, we strive to quickly respond to customers, develop new services, and improve operational quality.

\* CRM system

This is a customer relationship system dedicated to managing information on communication with customers. By sharing the accumulated opinions and requests of customers between relevant divisions and analyzing trends, we leverage the information in speedily responding to customers, developing new services, and improving operational quality.





## **(2) Surveys for investment trust management companies and investment advisor companies**

We conduct annual surveys to collect wide-ranging opinions/requests, develop new services, and provide optimum solutions. The valuable opinions/requests we receive from our customers are utilized as voice of customer for developing and enhancing MTBJ's services/products, and we provide feedback on such efforts and survey results to customers at MTBJ seminars and other occasions. In FY 2017, we surveyed 68 investment trust management companies and 100 investment advisor companies.

## **(3) MTBJ Seminar**

MTBJ regularly holds MTBJ Seminars for investment trust management companies and investment advisor companies, actively sending information that is considered beneficial, such as investment trust industry trends and implications on investment trust funds in light of international regulations. We held the FY 2017 MTBJ Seminar on November 14 on the five themes listed below and received 32 investment trust management companies and 23 investment advisor companies (total 92 persons) as participants. We will continue to hold seminars on timely themes that would be of great interest to our customers.

- ① Points and discussion status of Asia Region. Funds Passport (ARFP)
- ② Latest domestic/foreign market trends (Investment in the Chinese market, T+1 JGB settlement cycle)
- ③ Overview of foreign financial regulations and initiatives (e.g., derivatives margin requirements)
- ④ MTBJ initiatives for better services (introduction of CLS, expanded use of SWIFT, Japanese investment trusts denominated in foreign currency)
- ⑤ Initiatives of MUTB Group's investor service business



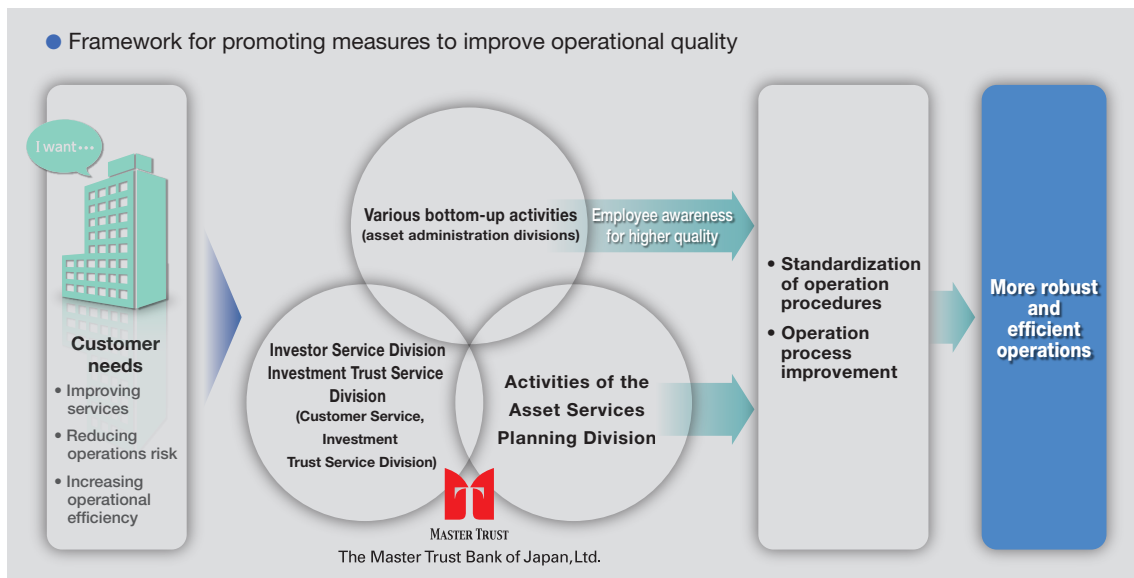
# Infrastructure for stably and efficiently providing integrated asset administration services

- Initiatives for enhancing operational quality
- Business Continuity Plan

## ■ Initiatives for enhancing operational quality

### Further enhancing operational quality

MTBJ is making all-out efforts to further enhance operational quality (improving services, reducing operations risk, increasing operational efficiency). The Asset Services Planning Division sorts out standard operation procedures and expands them on a company-wide basis, and its staff works closely with divisions engaged in asset administration operations to facilitate the establishment of frameworks for improving operation processes and underpinning operational quality. Also, it establishes and implements systematic talent development programs with the Human Resources & Corporate Administration Division to drive autonomous and continuous growth of each employee. Furthermore, the divisions engaged in asset administration operations undertake various initiatives to improve operational quality, which is supported by the Asset Services Planning Division in both operational and IT system fronts. We also boost each employee's awareness for improving operational quality through promotion of bottom-up activities. The Corporate Risk Management Division and the Asset Services Planning Division capture the implementation status of operations, including these bottom-up activities, assess such activities and identify issues, and share the information with divisions engaged in asset administration operations to improve operational quality. In order to provide asset administration of the highest quality, MTBJ makes organizational efforts to reduce operations risk while each employee strives to further improve operational quality with strong awareness.



### CSA (Control Self Assessment)

CSA refers to activity conducted by divisions responsible for businesses to identify and recognize risks inherent in the businesses, assess the risk levels and the status of controls, and develop and implement the necessary measures, thereby autonomously controlling risks, enhancing risk management, and improving internal controls. By regularly and continuously assessing risks inherent in each business process through CSA and implementing necessary action plans, such as reviewing business flow, we strive to improve operational quality.

## Efforts to increase productivity

### Realizing efficient operational structures

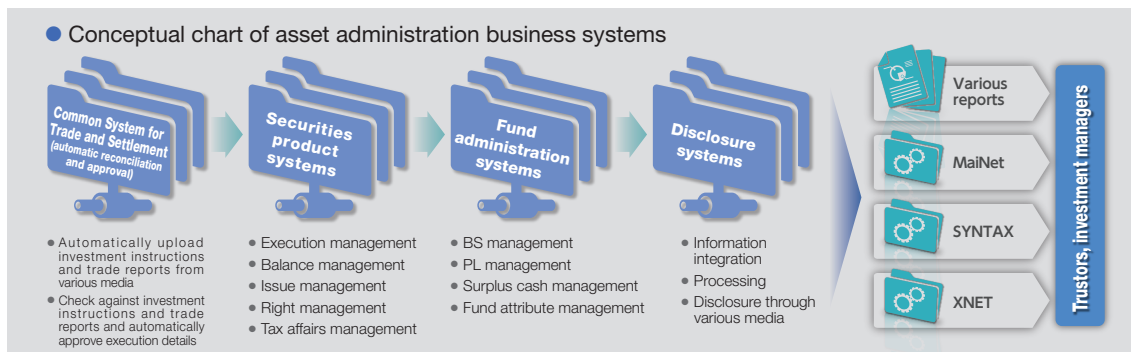
We will create a common platform for execution processing in and outside Japan by operating a Common System for Trade and Settlement and drive standardization by promoting further implementation of straight through processing. At the same time, we will enhance the accuracy and speed of operation processing by adopting the structure of the functional organization aligned with operational processes while aiming to establish flexible structures responding to changes in the market environment and cut costs. Also, we drive forward digitalization, such as automation of internal processing using RPA\*. Furthermore, we will boost productivity and efficiency by leveraging artificial intelligence and other digital technologies.

\*RPA: Robotics Process Automation

RPA is a business automation technology using robots. RPA is mainly used to replace routine and repetitive tasks for which rules can be established.

### (Reference) System structure--achieving provision of stable and efficient services

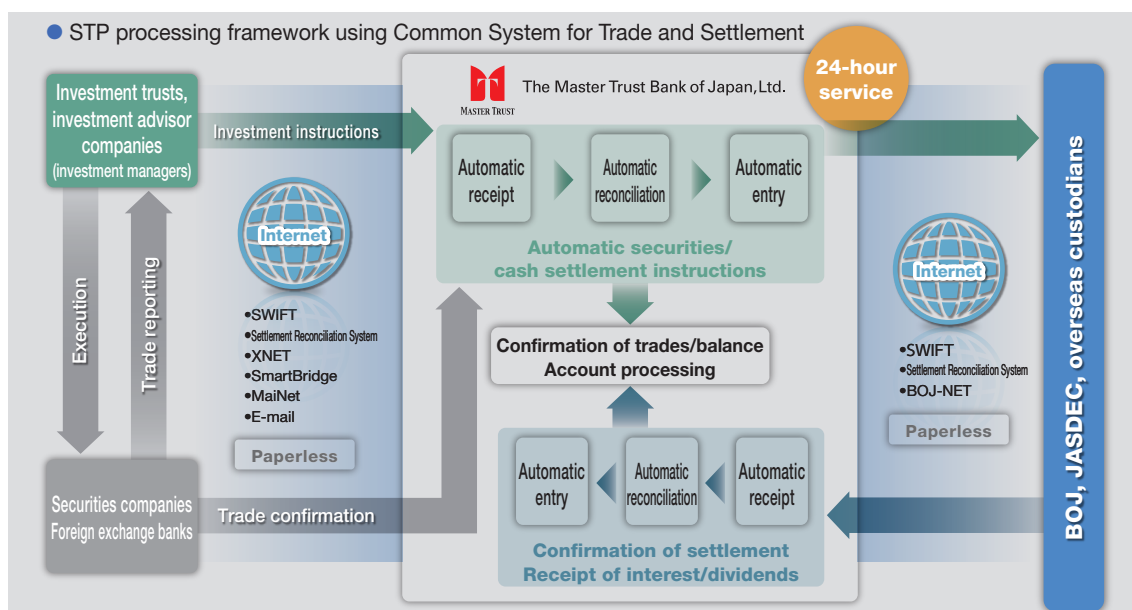
MTBJ's systems are structured efficiently for each purpose from trade management to preparation of reports, and thus, we are able to handle various asset administration services flexibly for both investment trust products and other products. We will provide stable and efficient services by using a common platform instead of developing and using separate systems depending on services to provide. This allows us to systematically respond to reforms of securities settlement systems, law revisions and other changes, resulting in quick and sound actions.



**(Reference) Common System for Trade and Settlement--driving automated processing from execution to settlement**

In November 2003, we reconstructed the STP system\*, which we had previously developed and operated for each domestic/foreign asset, and developed and started using the Japan's first system for integrated real time processing of a series of processes for execution, settlement, and reconciliation (confirmation of trade completion, balance) of domestic/foreign securities trades and foreign exchange trades (Common System for Trade and Settlement). By operating this system, we furthered the structure for accurately and quickly processing large volumes of trades and controlling cost increases. Also, we continuously develop systems to interface with market settlement infrastructure being established in and outside Japan and respond to reforms of securities settlement systems.

\*An automated business management system incorporating the concept of straight through processing for operation processing from execution, to settlement processing and confirmation of settlement completion.

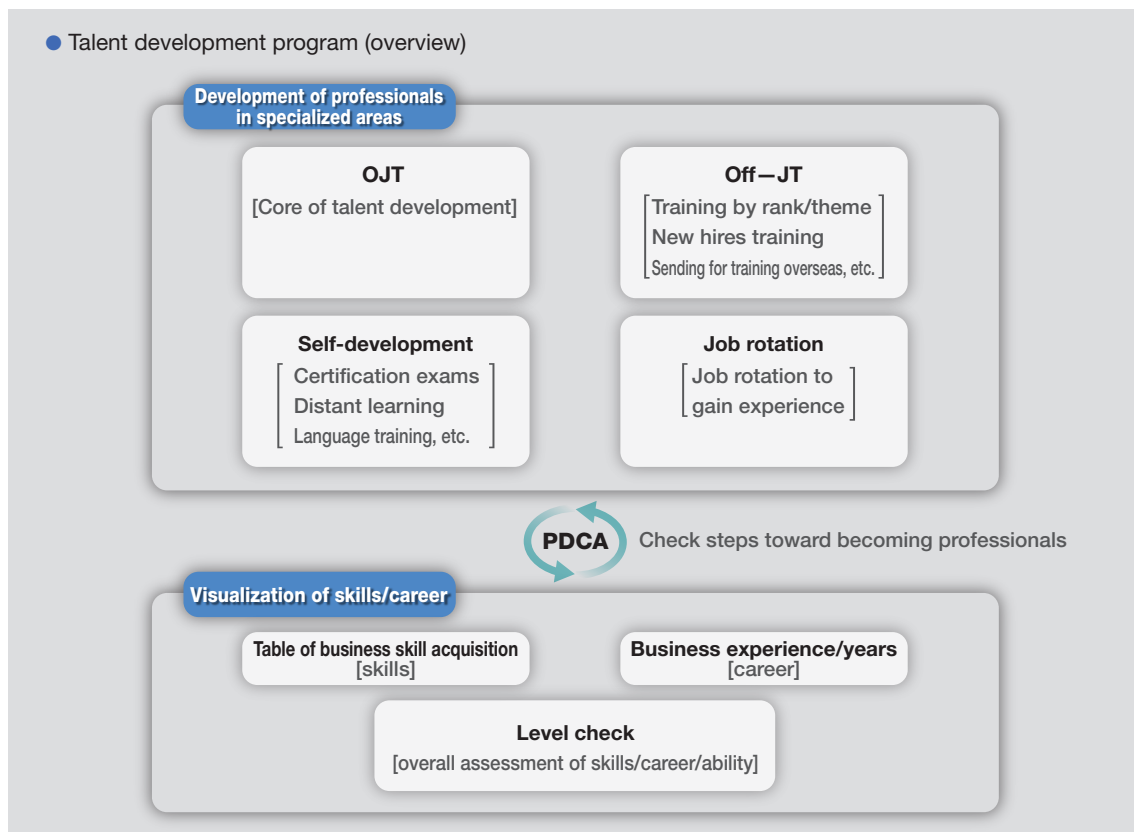


Infrastructure for stable and efficient providing integrated asset administration services

## Human resource strategies

### Systematically developing professional talents

It is necessary to cultivate human resources who have high skills (ability to execute, mastery of business) in order to provide services of the highest quality. In addition, we must continuously develop managers equipped with sufficient knowledge and careers in overall business so that we can keep providing stable services for the future. MTBJ has talent development programs aimed at enhancing skills and building the experience of personnel through systematic on and off the job training and job rotations, as well as a framework for visualizing skills/careers to check the outcome of development. Through these programs and framework, we develop professionals by specialized area capable of providing added value to customers and improving operational efficiency in each area of expertise, while continuously cultivating future managers.



### Promotion of women's active participation

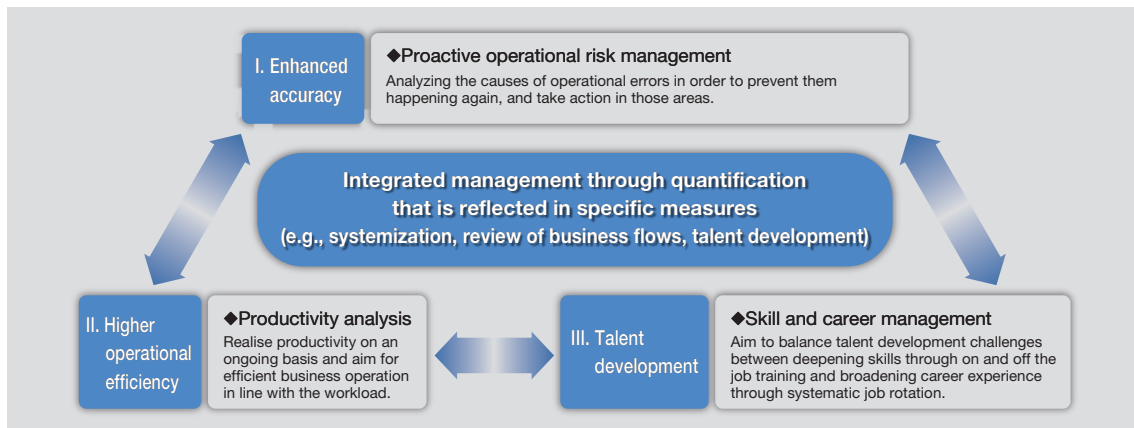
MTBJ, whose female employees account for 70% of its workforce, aspires to be a company where female employees can continue working over long years even through life events, such as childbirth and childrearing, and able to demonstrate their ability feel job satisfaction by promoting the appointment of women in prominent roles. Given that MTBJ is a young company that opened business 18 years ago and began hiring 13 years ago, MTBJ sets the following two goals in the mid-term business plan to the end of March 2020:

- (1) Raise the ratio of employees whose years of service is 10 years or longer to the overall employees hired by MTBJ to at least 39%.
- (2) Increase female employees in section chief or equivalent positions who are candidates for managerial positions by at least 35% versus the end of fiscal year 2017.

To realize these goals, we will develop candidates for managerial positions by continuously improving the work environment and implementing active job rotation to support female employees so that they can continuously serve over long years and take active roles, thereby cultivating and retaining professional talents.

Efforts to enhance operation management – balanced implementation of higher operational efficiency, enhanced accuracy, and talent development

We will operate efficiently by understanding productivity calculated by measuring workload and time used for each process after breaking down MTBJ's operations into around 500 operational processes. At the same time, we will manage human resources (skills/career) and quality in connection to productivity to enhance operational management.



## ■ ■ Business Continuity Plan--started full-scale dual operations in Tokyo and Osaka

### Business continuity plan--strong complementary structure using multiple bases

Declaring that the development and improvement of a business continuity plan against occurrence of disasters, accidents, incidents, and the like is one of its key management challenges, MTBJ establishes the business continuity plan with awareness of social responsibility as a specialized asset administration bank. In light of risk diversification, as for work locations, we have the Osaka office (in Osaka) and a backup office (in Tokyo) in addition to the Hamamatsucho office. As for system centers, we have the main system centers (in Tokyo and Tochigi) and a back-up system center (in Aichi). These structures enable us to continue business in the event that one base is hit by a disaster as other bases can complement. In addition, leveraging this infrastructure, we work to maintain and improve the business continuity system by implementing business continuity training against disasters on an ongoing basis.

### Back-up structure for offices and personnel--establishing operations in multiple locations and continuously developing personnel

To be prepared for a situation in which the main office becomes unavailable for operation, we set up a back-up office with sufficient facilities in terms of infrastructure, space, and the like in one of the system centers in Tokyo. While conducting various crisis management training programs so that we can continue business extensively in the event of a disaster happened in daytime by promptly moving to the back-up office, we continuously train personnel to secure reservists for divisions affected by a disaster to enhance effectiveness.

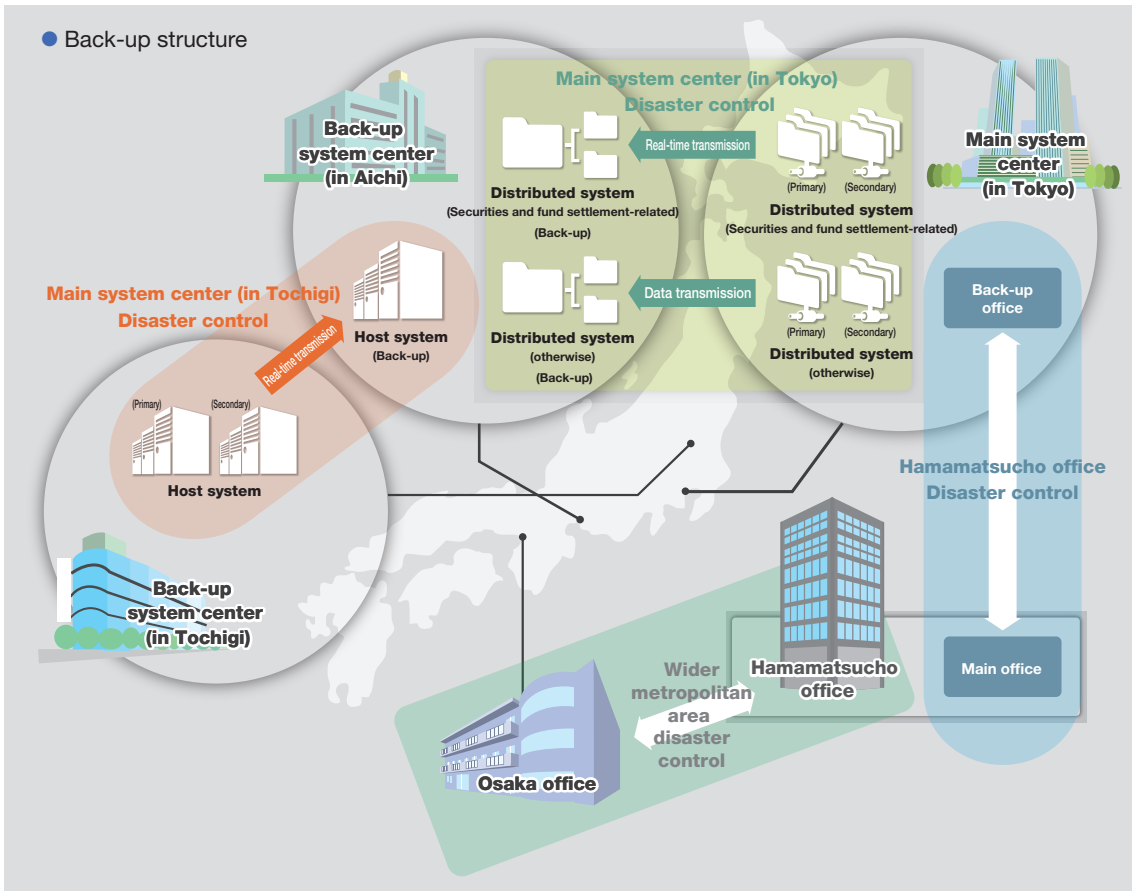
In addition, in order to enhance our business continuity system in the event of a wider-area disaster in the Tokyo metropolitan district, in April 2018, we established an independent division in the Kansai region, the Osaka Asset Services Division (location: Suita-shi, Osaka), the first such initiatives by a trust bank specialized in asset administration. The Osaka Asset Services Division conducts dual operations in parallel with Tokyo mainly for businesses of high priority for continuity, such as funds and securities settlement. Unlike a disaster site that operates only in times of disaster, in the system of dual operations, parallel operations are conducted in Tokyo and Osaka in peacetime. We will further enhance the functions so that we will be prepared to continue businesses that are in substantial need as social infrastructure.

### Back-up structure for systems--smooth switching for business continuity

For both a system that manages customer asset data (host system) and a system that manages external settlements (distributed system), the main system center employs the hot standby method of running primary and secondary systems and, if the primary system fails, the secondary system in standby will be used for operation. In addition, data is sent on as needed basis to a system set up in the back-up system center and thus we are able to continue to operate business without problems in the event of a disaster at the main system center.



● Back-up structure



- Risk management system
- Compliance System
- International Standard Certification for Information Security Management System
- Internal Audit System
- External Audit System

# Proper Risk Management and Strict Compliance with Laws and Regulations



## ■ ■ Risk management system

Seeing risk management as one of key management challenges as a trust bank specialized in the asset administration business, MTBJ has a system in place for capturing and managing the risks of its business as a whole by establishing the Corporate Risk Management Division, an independent risk management division, to comprehensively manage all risks, as well as deciding risk management policy and capturing and discussing the status of business from risk management perspective of the Board of Directors and other bodies. In addition, we have the risk management committee chaired by the chief risk management officer as an organ under the Management Conference to analyze causes and discuss recurrence prevention measures among relevant divisions for material issues as a system for business improvement and reducing potential risks. In operating business, we strive to establish and enhance risk management systems by, for example, formulating internal rules for each risk and implementing proper risk management based on the rules.

### Addressing individual risks

In managing risks, MTBJ sees credit risk, market risk, liquidity risk, and operational risk as especially important. We manage these risks in accordance with the following policy in light of the unique nature of a trust bank engaged in the asset administration business.

#### (1) Credit Risk Management

Credit risk refer to *The risk of financial loss in credit assets (including off-balance sheet instruments) caused by deterioration in the credit conditions of counterparties. This category includes country risk.* With Credit Analysis Group set up in the Corporate Risk Management Division, we strive to maintain the status of credit facilities at an appropriate level.

#### (2) Market Risk Management

Market risk refer to *The risk of financial loss where the value of our assets and liabilities could be adversely affected by changes in market variables such as interest rates, securities prices and foreign exchange rates. Market liquidity risk is the risk of financial loss caused by the inability to secure market transactions at the required volume or price levels as a result of market turbulence or lack of trading liquidity.*

We set market risk limits and loss limits so that we will not have excessive market risk.

#### (3) Liquidity Risk Management

Liquidity risk refer to *The risk of incurring loss if a poor financial position at a group company hampers the ability to meet funding requirements or necessitates fund procurement at interest rates markedly higher than normal.* In light of the importance of liquidity risk management, we organizationally separate the division managing funding liquidity (Corporate Risk Management Division) from the division managing cash flow (Domestic Asset Services Division) and regularly conduct monitoring on the funding status and the market environment.

#### (4) Operational Risk Management

Operational risk refer to *The risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.* Among operational risk components, We manages operations risk, information asset risk, legal risk, tangible asset risk, personnel risk, and reputation risk as especially important.

##### (i) Operations Risk Management

Operations Risk refer to *The risk of incurring loss that might be caused by negligence of correct operational processing, or by incidents or misconduct by either officers or staff, as well as other similar risks.* We strives to improve the standards of operations and prevent inappropriate operation procedures by continuously establishing and enhancing manuals, ensuring thorough compliance with authority and rules when carrying out operation procedures and regularly conducting training and providing guidance.

## ■ Proper Risk Management and Strict Compliance with Laws and Regulations

### (ii) Information Asset Risk Management

Information asset risk refer to *The risk of loss caused by loss, alteration, falsification or leakage of information, or by destruction, disruption, errors or misuse of information systems, as well as other similar risks.* We take measures, such as ensuring thorough management of internal information, including customer information by strengthening internal rules while duplicating critical devices, such as computers and networks, to be prepared for system failure.

### (iii) Legal Risk Management

Legal risk refer to *The risk of loss due to failure to comply with applicable laws and regulations, adequately evaluate contractual rights and obligations, or appropriately deal with disputes, as well as other similar risks.* We have a structure in place for Law and Compliance Group established in the Corporate Risk Management Division to centrally manage legal risk. At the same time, we ensure that officers and employees fully comply with laws and regulations.

### (iv) Tangible Asset Risk Management

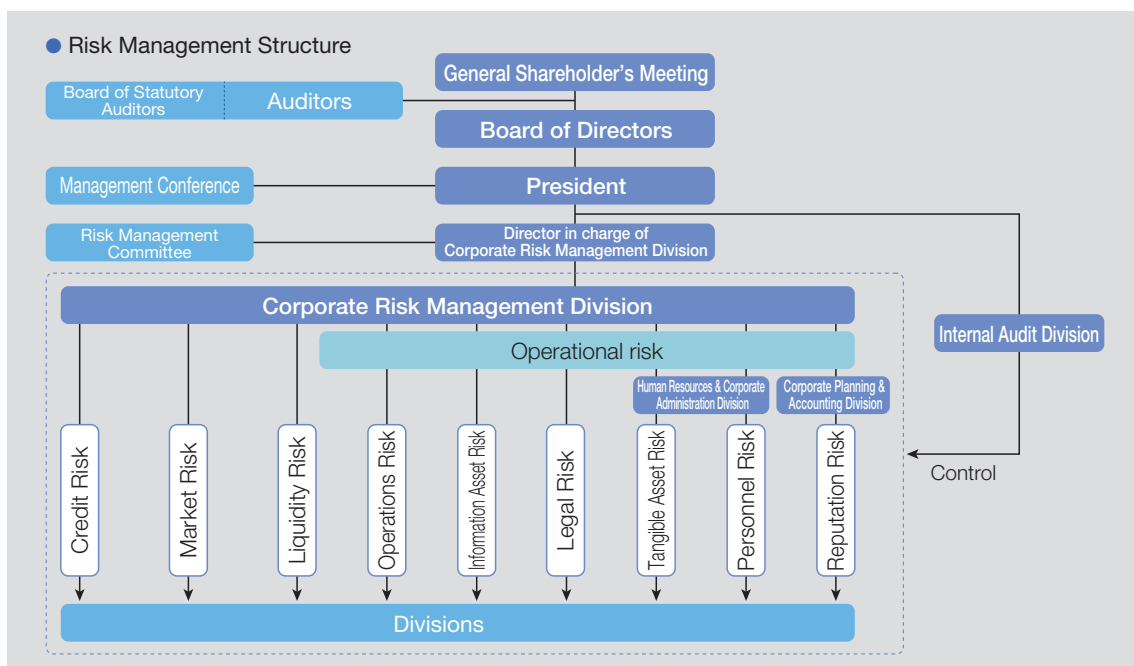
Tangible asset risk refer to *The risk of loss due to damage to tangible assets or deterioration in the operational environment caused by disasters or inadequate asset maintenance, as well as risks similar to this risk.* The Human Resources & Corporate Administration Division is charged with tangible asset risk management and works to reduce and mitigate the risk upon understanding vulnerabilities of tangible asset risk to manage.

### (v) Personnel Risk Management

Personnel risk refer to *The risk of loss due to an outflow or loss of human resources or deterioration in employee morale, as well as risks similar to this risk.* The Human Resources & Corporate Administration Division is charged with managing personnel risks and establishing the necessary management procedures to ensure an understanding of them by officers and employees upon grasping the degree of impact of a change in the quality and quantity of human resources.

### (vi) Reputation Risk Management

Reputation risk refer to *The risk of loss due to deterioration in reputation as a consequence of the spread of rumors among customers or in the market, or as a consequence of inadequate response to a particular circumstance by MUFG, as well as other similar risks.* The Corporate Planning & Accounting Division is charged with managing reputation risk and establishing the necessary management procedures to ensure an understanding of them by officers and employees upon grasping the possibility of deterioration in reputation.



## ■ ■ Compliance System

As a trust bank engaged in the asset administration business, MTBJ aims to become a bank truly trusted and valued by society by ensuring thorough compliance. To realize this philosophy, we develop the following measures and systems.

### Formulation of the Corporate Activity Ethics Standards.

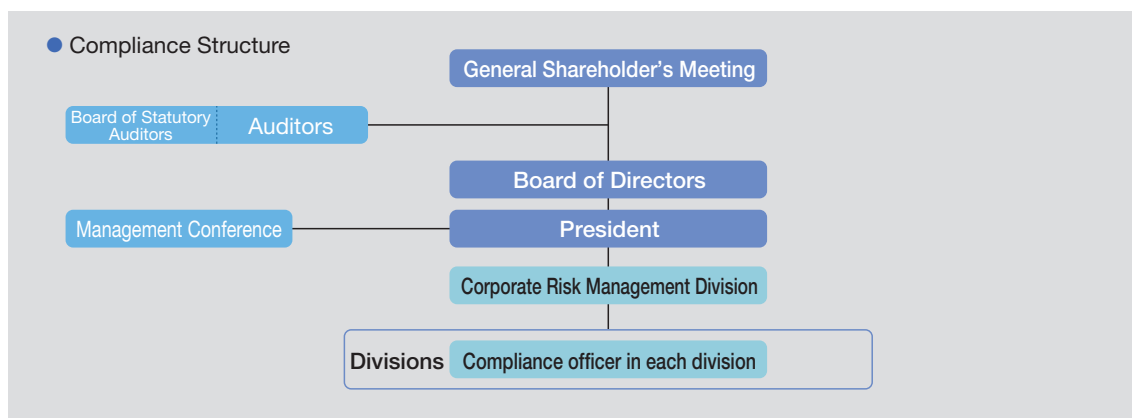
We establish the Corporate Activity Ethics Standards to clarify our basic policy on compliance with laws and regulations as well as specific standards of conduct. These Standards set forth ethics standards for realizing our Management Creed as well as specific standards of conduct for them.

### Compliance activity

MTBJ formulates the *Compliance Manual* as a specific guide for practicing compliance based on the Corporate Activity Ethics Standards. This *Manual* is posted on the intranet that can be viewed by all officers and employees, and we ensure their understanding by conducting training as necessary at the workplace. In addition, to achieve compliance, we formulate the Compliance Program for each fiscal year, based on which we implement our compliance activities and review the progress on a regular basis. Specifically, we regularly conduct compliance training, and each division regularly checks matters related to laws and regulations.

### Organizational structure for practicing compliance

We have the Corporate Risk Management Division as an oversight division for practicing company-wide compliance. The Corporate Risk Management Division plans and designs various measures for practicing company-wide compliance. In addition, a compliance officer is appointed at each division for practicing compliance at the division.



### Compliance Helpline

We have a system in place for an employee to directly report to an internal or external reporting desk to find and correct compliance issues as early as possible. Upon receiving a report, the Corporate Risk Management Division, the division supervising compliance, takes action, such as clarifying facts, correcting problems, and developing preventative measures.

## ■ Proper Risk Management and Strict Compliance with Laws and Regulations

### ■ International Standard Certification for Information Security Management System

In March 2007, MTBJ obtained ISO 27001 certification, the international standard on information security management system (ISMS). Having achieved ISO 27001 certification by a U.S. accreditation organization (ANAB), MTBJ's information security management system is accredited to have the quality to clear the level of international standard with proper management frameworks and strict implementation. After obtaining the certification, we undergo annual surveillance audits and recertification audits every three years, thereby being subjected to continuous checks for the design and operation status of our information security management system. In order to remain a company trusted by its customers, we will strive to enhance the level of information security on an ongoing basis.

#### ● MTBJ certification information



IS 513423  
ISO(JISQ)27001

Certification Registration No.	IS 513423	
Scope of Certification	<p>The following businesses at the Asset Services Planning Division, the Investor Service Division, and the Securities Lending &amp; Transition Management Division</p> <ol style="list-style-type: none"> <li>1. Operation planning and research and planning of systemization related to the asset administration business and businesses incidental thereto</li> <li>2. Execution of securities lending and investment of surplus cash and securities trades and the exercise of voting rights business related to entrusted assets</li> <li>3. Consulting and function sales businesses related to the asset administration business</li> <li>4. Development and oversight of business strategies related to the asset administration business</li> </ol> <p>Statement of Applicability, issued on October 31, 2014, Version 2</p>	
Date of Initial Registration	March 9, 2007	
Certification Registration Organization	BSI Group Japan K.K.	
Category	ISO/IEC 27001: 2013* <sup>1</sup>	JIS Q 27001: 2014* <sup>2</sup>
Accreditation body	ANAB (ANSI-ASQ National Accreditation Board)	JIPDEC

\*1 An ISO/IEC standard, an international certification standard on Information Security Management System (issued in October 2013)

\*2 A Japanese certification standard on conformity assessment scheme of information security management system. For the ISMS certification audit standard, in March 2014, JIS Q 27001: 2014 was published in association with the publication of the international standard ISO/IEC 27001: 2013 to replace JIS Q 27001: 2006.

## ■ Internal Audit System

*Internal audit* is a process in which an independent internal audit division validates and assesses the appropriateness and effectiveness of internal control systems, including the risk management system and reports and makes recommendations to the management for the purpose of contributing to ensuring the soundness and fairness of management, enhancing customer confidence, and increasing corporate value. We have the Internal Audit Division as the division responsible for internal audits. It conducts internal audits, giving consideration to the frequency and depth of audits according to the types and levels of risks borne by audited divisions, and validates and assesses the appropriateness and effectiveness of risk management, internal controls and governance processes, thereby to contribute to enhanced internal control systems. Going forward, we will further improve and maintain audit quality to respond to changes in the environment surrounding financial institutions and conduct more effective audits.

## ■ External Audit System

MTBJ undergoes audits by an external auditor on the effectiveness of internal controls over the asset administration business in order to enhance the soundness, transparency, and credibility of the business. This validation is in compliance with the standards set forth by Japanese Institute of Certified Public Accountants and American Institute of Certified Public Accountants, and we report the validation results to our customers. We will continue to appropriately design and operate internal controls to meet the trust of our customers.



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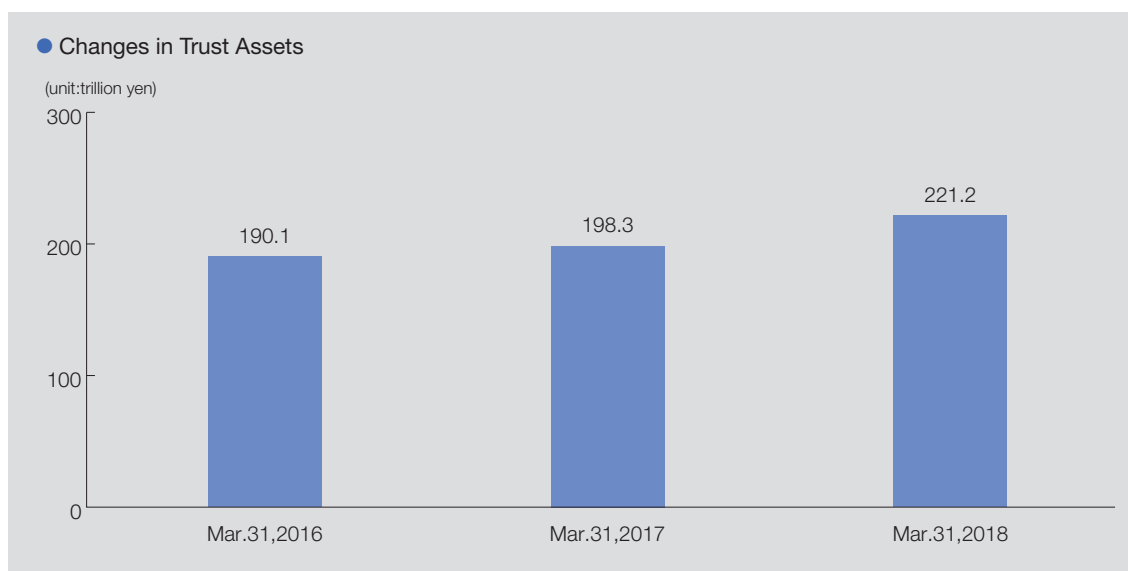


## Financial Highlight

### ● Changes in key indicators

(unit:million yen)

	Year Ended Mar.31, 2016	Year Ended Mar.31, 2017	Year Ended Mar.31, 2018
Ordinary Income	22,338	23,328	22,505
Ordinary Profits	1,096	1,274	1,091
Net Income	717	892	773
Trust Fees	19,441	20,397	19,514
Total Assets	6,217,917	3,220,692	3,294,049
Net Assets	21,812	22,508	23,000
Capital Stock	10,000	10,000	10,000
Total Number of Shares Issued	120,000	120,000	120,000
Non-Consolidated Capital Adequacy Ratio (Japanese Standards)	47.67%	44.55%	26.38%
Dividend Payout Ratio	25.0%	25.0%	25.0%
Number of Employees	739	757	762



## FINANCIAL STATEMENTS

### ● Balance Sheet

(unit: million yen)

	Mar. 31, 2017	Mar. 31, 2018
<b>Assets</b>		
Cash and Due from Banks	2,192,237	2,886,560
Cash	1	1
Due from Banks	2,192,235	2,886,558
Call loans	—	200,000
Receivables under Securities Borrowing Transactions	799,923	—
Securities	30,425	9,027
Japanese Government Bonds	30,030	9,006
Japanese Stocks	1	1
Other Securities	394	20
Loans and Bills Discounted	156,319	155,320
Loans on Deeds	156,319	155,320
Other Assets	41,017	42,335
Prepaid Expenses	141	151
Accrued Income	3,262	3,698
Other	37,612	38,485
Tangible Fixed Assets	354	356
Buildings	241	214
Other Tangible Fixed Assets	112	141
Intangible Fixed Assets	16	15
Software	6	5
Other Intangible Fixed Assets	9	9
Deferred Tax Assets	398	433
Allowance for Credit Losses	△0	—
<b>Total Assets</b>	<b>3,220,692</b>	<b>3,294,049</b>
<b>Liabilities</b>		
Deposits	19,201	27,285
Current Deposits	14,594	21,400
Ordinary Deposits	73	73
Other Deposits	4,532	5,811
Due to Trust Accounts	3,157,465	3,219,340
Other Liabilities	21,235	24,122
Accrued Income Taxes	351	167
Accrued Expenses	3,156	3,252
Asset Retirement Obligations	123	126
Accounts Payable	16,066	19,143
Other	1,537	1,432
Provision for Bonuses	82	90
Provision for Retirement Benefits	160	171
Provision for Directors' Retirement Benefits	39	36
<b>Total Liabilities</b>	<b>3,198,184</b>	<b>3,271,048</b>
<b>Net Assets</b>		
Capital Stock	10,000	10,000
Retained Earnings	12,448	12,999
Revenue Reserve	230	274
Other Retained Earnings	12,218	12,724
Earned Surplus Brought Forward	12,218	12,724
Shareholders' Equity	22,448	22,999
Valuation and Translation Adjustments	59	1
Valuation Difference on Available-for-Sale Securities	59	1
<b>Total Net Assets</b>	<b>22,508</b>	<b>23,000</b>
<b>Total Liabilities and Net Assets</b>	<b>3,220,692</b>	<b>3,294,049</b>

● Statement of Income

(unit: million yen)

	Year Ended Mar.31, 2017	Year Ended Mar.31, 2018
Ordinary Income	23,328	22,505
Trust Fees	20,397	19,514
Interest Income	△ 1,149	△ 1,650
Interest on Loans and Discounts	5	0
Interest and Dividends on Securities	△ 42	△ 46
Interest on Call Loans	0	△ 97
Interest on Receivables under Securities Borrowing Transactions	96	37
Interest on Due from Banks	△ 1,209	△ 1,544
Fees and Commissions	2,920	2,830
Fees and Commissions on Domestic and Foreign Exchanges	202	225
Other Fees and Commissions	2,717	2,605
Other Operating Income	1,093	1,435
Other	1,093	1,435
Other Ordinary Income	67	375
Reversal of allowance for credit losses	—	0
Gains on sales of equity securities	—	327
Other	67	47
Ordinary Expenses	22,054	21,413
Interest Expenses	994	366
Interest on Deposits	0	0
Other Interest Expenses	994	366
Fees and Commissions Payments	863	801
Fees and Commissions on Domestic and Foreign Exchanges	58	62
Other Fees and Commissions	805	739
General and Administrative Expenses	20,194	20,241
Other Expenses	1	4
Provision for Allowance for Credit Losses	0	—
Other	1	4
Ordinary Profits	1,274	1,091
Extraordinary Loss	2	0
Loss on Dispositions of Noncurrent Assets	2	0
Income before Income Taxes	1,271	1,091
Income Taxes-Current	431	327
Income Taxes-Deferred	△ 52	△ 9
Total Income Taxes	378	317
Net Income	892	773

● Statement of Changes in Equity

Year Ended Mar.31, 2017

(unit:million yen)

	Shareholders' Equity					Valuation Difference on Available-for-Sale Securities		Total Net assets
	Capital Stock	Retained Earnings			Shareholders' Equity	Valuation and Translation Adjustments	Valuation Difference on Available-for-Sale Securities	
		Revenue Reserve	Other Retained Earnings	Total Retained Earnings				
Balance at the Beginning of the Period	10,000	194	11,540	11,735	21,735	77	77	21,812
Changes in the Period								
Dividends of Surplus	—	35	△ 214	△ 179	△ 179	—	—	△ 179
Net Income	—	—	892	892	892	—	—	892
Net Changes of Items Other Than Shareholders' Equity	—	—	—	—	—	△ 17	△ 17	△ 17
Total Changes of Items During Period	—	35	677	713	713	△ 17	△ 17	695
Balance at the End of the Period	10,000	230	12,218	12,448	22,448	59	59	22,508

Year Ended Mar.31, 2018

(unit:million yen)

	Shareholders' Equity					Valuation Difference on Available-for-Sale Securities		Total Net assets
	Capital Stock	Retained Earnings			Shareholders' Equity	Valuation and Translation Adjustments	Valuation Difference on Available-for-Sale Securities	
		Revenue Reserve	Other Retained Earnings	Total Retained Earnings				
Balance at the Beginning of the Period	10,000	230	12,218	12,448	22,448	59	59	22,508
Changes in the Period								
Dividends of Surplus	—	44	△ 267	△ 223	△ 223	—	—	△ 223
Net Income	—	—	773	773	773	—	—	773
Net Changes of Items Other Than Shareholders' Equity	—	—	—	—	—	△ 58	△ 58	△ 58
Total Changes of Items During Period	—	44	506	550	550	△ 58	△ 58	492
Balance at the End of the Period	10,000	274	12,724	12,999	22,999	1	1	23,000

Note

1. These translations are literal translations of the financial statements that were prepared in accordance with the Companies Act in Japan and were prepared solely for reference purposes.
2. Amounts of less than one million yen are rounded down.



**The Master Trust Bank of Japan, Ltd.**

**MTBJ Corporate Report 2018**

**The Master Trust Bank of Japan**

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