

# Comprehensive Risk Management System

## Comprehensive Risk Management

The Group defines risk management as one of its critical management issues and aims at well-balanced management in pursuit of enhanced profitability while maintaining operational soundness through further development of comprehensive risk management. To this end, risks are managed in accordance with the Basic Risk Management Rules which set out policies and a framework for risk management for the entire Group along with other basic matters on the subject.

Risks faced by the Group include credit risks, market risks, liquidity risks and operational risks. The Group has established a risk management system based on the “three lines of defense” concept. As the first line of defense, business divisions facing the risks engage in the responsible management of the risks. The second line of defense is to designate sections in charge of each type of risk management, and understand, analyze and evaluate the status, and manage and check each type of risk. In addition, we have established a system for comprehensively managing the various types of risks through the establishment of committees and a department in charge of risk management (Corporate Administration Department). As the third line of defense, we have established a system in which the internal audit department (Audit & Inspection Department) verifies the appropriateness and effectiveness of risk management.

The Group strives to ensure operational soundness while enhancing profitability at the same time, and has a policy to conduct appropriate risk-taking within the limits of capital. The Group sets risk limits for each risk category (credit, market, and operational risks) and calculates, monitors, and manages the amount of each risk using statistical and other methods.

In addition to comparing the total amount of risk aggregated each risk amount with capital, we also evaluate and verify the degree of capital adequacy by estimating the impact of risk events that may not be captured in each risk amount using stress tests, etc. The results of these evaluations and verifications are used to strengthen and revise business plans and risk management.

### ▶ ALM

ALM is an abbreviation for Asset and Liability Management, which is a system to comprehensively manage assets and liabilities, including various types of risk analysis, to ensure stable earnings growth.

### ▶ Three lines of defense

Line 1: Autonomous management by business divisions; Line 2: Checks and support by risk management divisions; Line 3: Verification of appropriateness and effectiveness and recommendations for improvements by the internal audit divisions.

## Credit Risk Management

Credit risk refers to the risk of losses incurred when the value of assets (including off-balance-sheet assets) declines or becomes worthless due to changes in the financial status of those to whom credit is provided.

Credit risk management aims to maintain and improve the financial soundness of the Group through appropriate management of credit operations in order to contribute to the sound development of the social economy and by extension, to develop the Group. The Group's basic credit risk management policy is to manage credit risk inherent in diverse transactions across all divisions and business sections in a comprehensive and integrated manner, and to establish and appropriately manage risk assessment and management methods that suit the characteristics of each risk.

A credit risk management system has been established so that each Group company manages credit risks based on our basic credit risk management policy, and the Corporate Administration Department, which is responsible for overseeing and managing credit risk, oversees and manages credit risks for the entire Group.

Credit risk management methods include a credit management system that establishes standards and procedures for making credit decisions and, as part of such procedures, a credit risk assessment system that stipulates standards and procedures for conducting credit risk assessments that form the basis for credit decisions has been established. These systems are properly operated to control risk by preventing the credit risk losses or suppressing losses within a certain range. Credit concentration risk is also appropriately controlled by avoiding excessive concentration of credit to specific customers or groups or specific industries. Through these efforts, we aim to control credit risk and secure stable earnings.

Regulatory capital requirements for credit risks are strictly measured in the credit risk management system given the importance of capital ratio requirements in risk management and information disclosure. We have established a framework to assess credit risk and financial conditions under stress such as economic recessions and defaults by large borrowers, to evaluate capital sufficiency and appropriateness of risk management plans, and to reflect such assessments and evaluations in our credit management, etc.

## Market Risk Management

Market risk refers to the risks of incurring losses from fluctuations in profits arising from assets and liabilities and the risks of incurring losses from fluctuations in the value of assets and liabilities (including those off balance sheet) due to fluctuations in market risk factors such as interest rates, exchange rates and share prices.

The Group's basic risk management policy for market risks is to determine and analyze risks from the point of view of fluctuations in both current value and net interest income and to assess the risks from various angles, using stress tests and other methods.

A market risk management system has been established so that each Group company manages market risks based on our basic market risk management policy, and the Corporate Administration Department, which is responsible for overseeing and managing market risk, oversees and manages market risks for the entire Group.

In terms of the method of managing market risks, trading limits and loss limits have been set for trading operations, the goal of which is to earn trading profit from buying and selling securities in market operations. These limits are managed to ensure that losses in excess of a certain amount do not occur. Banking operations (investment securities) are managed for risks by taking the risk-return balance into consideration through ALM analysis, Value at Risk (VaR) analysis and other means to ensure stable profits over the medium and long term. We have also established a system for the flexible management of market risks as well as credit risks and liquidity risks related to market operations.

Market risk management, including lending and deposit services, is carried out by analyzing risks from multiple aspects, such as the calculation of interest rate risks. The Group Risk Management Committee and the Group ALM Committee discuss the overall management of assets and liabilities and consider management and lending policies.

### ▶ VaR (Value at Risk)

Value at Risk (VaR) is the maximum loss, incurred in a portfolio during a specific holding period and confidence interval, estimated using statistical methods based on historical data.

## Liquidity Risk Management

Liquidity risk refers to the risks of incurring losses (hereafter, “fund procurement risks”) when it becomes difficult to secure the requisite funds or when procuring funds at a much higher than normal interest rate becomes necessary due to a mismatch between the timing of use and procurement or to an unexpected

outflow of funds, or to risks incurred when transactions cannot be conducted or must be conducted at prices that are much more disadvantageous than normal due to market disruptions or other factors (hereafter, "market liquidity risks").

The Group recognizes the importance of fund procurement management and its basic fund procurement risks policy is to ensure a stable supply of funds. Our basic policy for managing market liquidity risks is to take into consideration the special features of markets for individual products, such as market size, liquidity, and other factors, and to pay careful attention to their market liquidity.

A liquidity risk management system has been established so that each Group company manages liquidity risks based on our basic liquidity risk management policy, and the Corporate Administration Department, which is responsible for overseeing and managing liquidity risk, oversees and manages liquidity risks for the entire Group.

In terms of the method of managing liquidity risks, we pay attention to the daily status of fund procurement by monitoring early warning indicators and

work to limit the fund procurement risks. In addition, we manage liquidity risks by establishing management policies for fund procurement risks, such as policies for holding highly liquid assets and setting limits on the gap between funds under management and funds procured over a certain period of time.

Deposits comprise the vast majority of procurements at particularly important subsidiary bank. While its fund procurement is stable, we are working to diversify our means of procurement to prepare for unforeseen circumstances, by procuring from the market utilizing marketable securities held by the Group. For foreign currencies, we verify that funding is feasible using stress tests that assumes that it is difficult to procure funds from markets due to deterioration in conditions of foreign currency procurement, and we work to maintain the medium to-long-term stability of our foreign currency balance sheet by measuring and managing the stable foreign currency ratio which indicates the degree of stability of foreign currency investments and procurement.

## Group Risk Management System

