

# Risk Management

## Fundamental Risk Management Policies

With the diversification of financial services and businesses, the importance of risk management is heightening even further. Hyakugo Bank is working to strengthen and enhance risk management with its fundamental risk

management policy of establishing an appropriate risk management framework to maintain the soundness and adequacy of management and secure stable income.

## Comprehensive Risk Management System

Hyakugo Bank has a comprehensive system to understand and manage a variety of risks. Risks are grouped into categories such as “credit risk,” “market risk” and “operational risk.” Some headquarters divisions are designated as having principal responsibility for managing a specific type of risk, and risks are comprehensively managed by the risk management division. In addition, the ALM Risk Management Committee and the Operational Risk Management Committee comprehensively gauge, evaluate and monitor the risks and deliberate on risk management policies and measures.

In addition, based on this comprehensive risk management approach, Hyakugo Bank sets limits for the amount of risk and strives to secure both the soundness and appropriateness of management and stable earnings.

Moreover, by conducting internal audits through auditing units that are independent from business divisions, the Bank has established a mechanism for examining the appropriateness and effectiveness of management within each of its divisions and for encouraging improvement.

### Credit risk management

By conducting the appropriate management of credit risk, Hyakugo Bank aims to maintain soundness of assets such as loans and to build a portfolio that has high capital and asset efficiency.

To ensure appropriate returns commensurate with risk, Hyakugo Bank has implemented a credit rating system that employs standardized criteria to evaluate credit risk. In addition, the Bank has established a credit policy that limits the concentration of credit in any specific company or industry, and strives to diversify risk from the standpoint of credit portfolio management.

Hyakugo Bank uses the Foundation Internal Ratings-Based (FIRB) approach to calculate the capital adequacy ratio, and is working on the sophistication of risk management. In internal control, Hyakugo Bank measures and controls credit risk in a way that includes credit concentration risk.

For borrowers facing issues such as deteriorating business conditions, Hyakugo Bank appropriately determines management status and administers guidance for the formulation of revitalization plans as required to resolve problems and recover loans.

### Market risk and liquidity risk management

For market risk management, Hyakugo Bank aims to ensure stable earnings while appropriately managing its portfolio and controlling risk at an appropriate level.

Hyakugo Bank uses the VaR and other measurements to quantify various risks such as “interest rate risk,” “foreign exchange risk,” and “stock price risk.”

Hyakugo Bank deals with liquidity risk by appropriately monitoring and managing yen-denominated and foreign currency-denominated cash management. In addition, for contingencies, Hyakugo Bank implements various actions such as securing assets with high liquidity, confirming how much liquidity can be procured in the market, and formulating measures in advance according to the tightness of credit.

### Operational risk management

Hyakugo Bank considers operational risk to encompass a wide range of risks consisting of administrative risk, systems risk, information asset risk, ethical and legal risk, human risk, fixed asset risk, reputation risk, and other operational risks, and is working to upgrade the level of

risk management from both qualitative and quantitative perspectives.

Hyakugo Bank also continuously strives to strengthen cybersecurity measures and risk management related to outsourcing.

## Crisis Management

In addition to these risk management systems, Hyakugo Bank, in light of the public nature of banking operations, has formulated the Business Continuity Plan, which will enable it to continue offering or resume at an early stage the necessary financial services to maintain the social and

economic activities of the region, even in the event of a major disaster such as earthquakes or epidemic of new infectious diseases. In addition, Hyakugo Bank is reinforcing its capability to respond to crises by formulating various contingency plans and conducting regular drills.