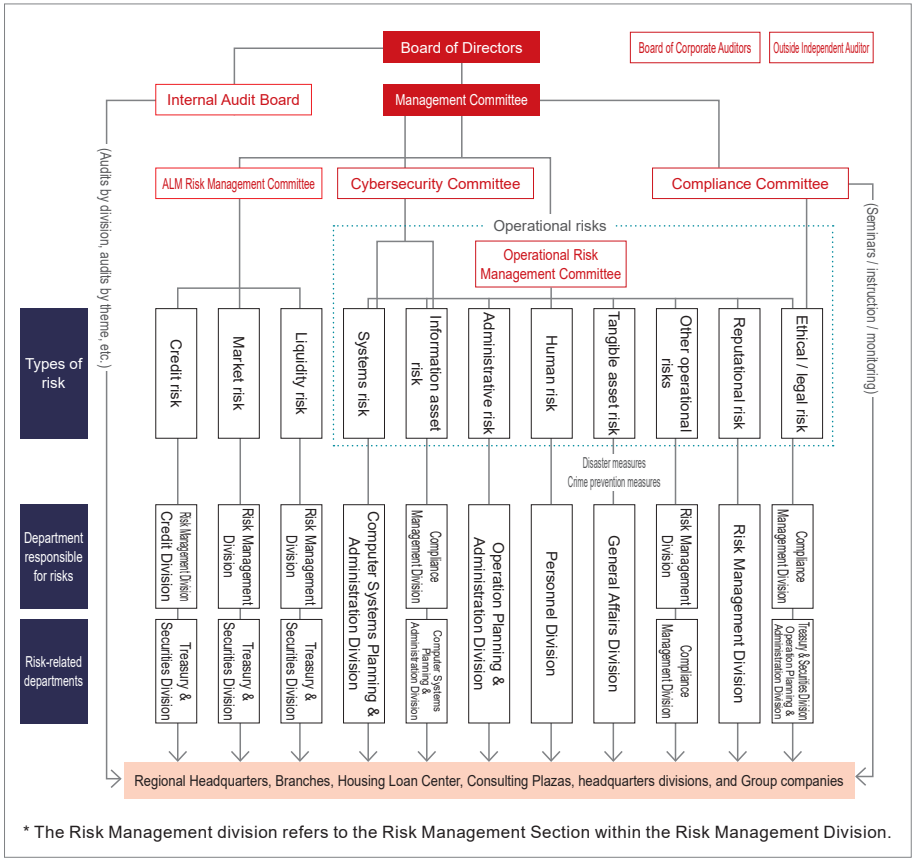
Risk Management

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.

Risk Management System

(As of June 23, 2025)



* The Risk Management division refers to the Risk Management Section within the Risk Management Division.

Comprehensive risk management system

Hyakugo Bank has a comprehensive system to understand and manage a variety of risks of the Hyakugo Bank Group. 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 quantifies risks and sets limits for risk taking, and thus 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 basic credit policy that limits the concentration of credit in any specific company or industry in the Hyakugo Bank Credit Policy, and monitors overall credit portfolio to diversify risk.

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 controlling risk due to market volatility of its portfolio at an appropriate level. Hyakugo Bank mainly uses VaR to quantify various risks such as “interest rate risk,” “foreign exchange risk,” and “stock price risk.”

Hyakugo Bank deals with liquidity risk by monitoring yen-denominated and foreign currency-denominated cash management and appropriately managing the risk to avoid lack of funds. 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 and implementing 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, tangible asset risk, reputation risk, and other operational risks, and is working to reduce risks after appropriately evaluating their impacts and the necessity of improvement measures. Hyakugo Bank also continuously strives to strengthen 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.

Initiatives for cybersecurity response

To address the increasingly advanced and sophisticated cyber attacks, Hyakugo Bank’s management is committed to staying updated on the latest developments, positioning cybersecurity as an investment and engaging in proactive management.

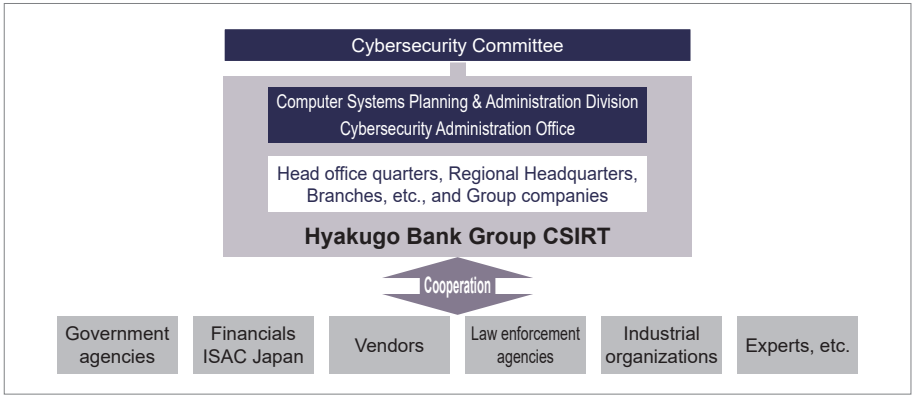
Basic policy for cybersecurity management

Management views cybersecurity risks as part of its risk management of the entire organization, and with the proactive involvement of management, we will allocate resources appropriately and, in normal times, establish systems for proactively responding to incidents. In addition, we will address the threats of ever-changing cyber attacks organizationally and technically by strengthening our ability to respond in the event of an emergency.

Scope and level of services to be maintained

We will develop a system that enables us to fulfill our social mission of continuously providing the financial services necessary for sustaining regional social and economic activities.

Risk management system



Through the establishment of the Cybersecurity Committee, we will strengthen information-sharing with the Board of Directors and establish a governance structure that includes the management. We have established Cybersecurity Administration Office, a dedicated department focused on specialized and intensive cybersecurity response, and are working to enhance the cybersecurity management framework.

Hyakugo Bank has established a cross-organizational cybersecurity response team including Group companies, Hyakugo Bank Group CSIRT[*1], to manage both routine and emergency situations, and formulated a basic policy and administration rules, etc. regarding cybersecurity to strengthen the cybersecurity management framework. We have also strengthened cooperation with cybersecurity-related organizations by signing a joint response agreement with the Mie Prefectural Police Department and participating in the Financials ISAC Japan[*2], an external organization. These efforts facilitate the gathering of information on a wide range of issues and contribute to early warning and preventive measures.

*1 CSIRT: An abbreviation for Computer Security Incident Response Team, an organization that works in normal times to prepare for the occurrence of potential security events in systems and other areas
*2 ISAC: An abbreviation for Information Sharing and Analysis Center, an organization that shares information on cybersecurity countermeasures, etc. among business sectors

Knowledge of cybersecurity leaders
Hyakugo Bank designated the manager responsible for cybersecurity administration as the person responsible for overall cybersecurity, who supervises cybersecurity risks. The manager responsible for cybersecurity administration actively participates in training and drills to incorporate external knowledge and strives to update the security system with the latest information. In addition, regular study sessions are held exclusively for the management to enhance their overall knowledge.

Securing resources
The Bank views cybersecurity as an important part of its internal infrastructure, alongside growth investments, and actively invests in “human resources” and “the development of robust systems.” We are focusing on developing and securing human resources with efforts such as sending staff to specialized organizations and training them as long-term trainees and recruiting mid-career external personnel versed in this area. Furthermore, we are working to raise awareness of cybersecurity across Hyakugo Bank by conducting targeted attack email drills and holding security study sessions regularly for all officers and employees.

Identification of risks and formulation of response plans
We identify and assess cybersecurity risks by gathering threat and vulnerability information from external organizations such as the National Cybersecurity Office (NCO[*3]), the National Police Agency, and the Financials ISAC Japan, and by conducting periodic vulnerability assessments of the Bank’s information assets. We then systematically take measures to mitigate cybersecurity risks, considering our business environment, management strategies, and risk tolerance.

*3 NCO: An abbreviation for National Cybersecurity Office, an organization established within the Cabinet Secretariat to provide advice and information necessary for ensuring cybersecurity.

Emergency response and restoration systems
In preparation for emergencies, we have a system in place to ensure cybersecurity. We also regularly participate in training organized by the Financial Services Agency and other organizations to improve our response capabilities and enable prompt action. In the event of an incident, management will be involved, and relevant departments will be convened to investigate the cause, prevent further damage, and take restoration measures to continue operations and protect information assets.

Incident status
No cyber incidents have occurred to date due to responses such as blocking unauthorized communications to the Bank’s devices.

TOPICS

Holding a seminar for cybersecurity response

The Hyakugo Bank Group is working on strengthening its cybersecurity response to address the advanced and sophisticated cyber attacks. In addition to our Group, we are also providing information to local businesses exposed to risks of cybercrimes, which have occurred frequently in recent years.

In February 2025, “Seminar for Cybersecurity Response” was held with cooperation of Mie Prefectural Police Headquarters, hosted by Hyakugo Research Institute and jointly organized by Hyakugo Bank and the Federation of Mie Prefecture Chamber of Commerce and Industry.

The seminar was attended by 151 management and cybersecurity personnel of medium-sized companies and SMEs from 122 companies and served as an opportunity providing them with useful information on necessary measures to protect important information assets of companies through demonstrations. The issues the seminar covered included the latest trends in cybercrimes, measures to prevent attacks, and the recovery process in the event of encountering damage and the methods for investigating the causes.

Hyakugo Bank will continue to foster awareness of local businesses on cybersecurity response and contribute to solving various local issues.