Upgrading our risk management systems

Basic Policy

Nanto Bank is reinforcing its risk management in recognition of the importance of preventing assorted management risks and taking measures to mitigate or avoid others, while also responding to emergency situations that could exert a significant impact on its corporate activities.

Measures to combat money laundering and financing of terrorism, diffusion finance, corruption, and bribery

Recent years have brought increasing demand from the international community for measures to combat money laundering and prevent financing of terrorism, diffusion finance, corruption, and bribery (money laundering, etc., hereafter). In this context, we have positioned money laundering prevention as one of our most important management issues. We have appointed the officer in charge of the department responsible for overseeing measures to prevent money laundering as the AML General Bank Manager. We also aim to improve the effectiveness and sophistication of our money laundering prevention by, for example, establishing the "Policy Against Money Laundering, Etc." as a fundamental Group policy.

In response to the emerging financial crimes that are becoming more complex and sneakier, meanwhile, we are also striving to maintain safe, highly convenient financial services by enhancing our preventive measures to prevent our customers from accidentally becoming involved in any financial crimes.

Policy Against Money Laundering

1. Organizational structure

(1) The Bank considers countermeasures against criminal activities such as money laundering to be one of the most important issues for management. It complies with all applicable laws and regulations concerning their prevention and establishes and implements the necessary administrative procedures. We also deploy our resources appropriately, including assignment of personnel with the requisite expertise and allocation of budgets.

(2) The Bank shall establish a centralized management system by designating a person responsible and a supervisory department for money laundering prevention and shall respond to the relevant issues in a cross-organizational manner through coordinated efforts of the departments concerned.

2. Risk-based approach

The Bank shall employ a risk-based approach to appropriately identify and assess money laundering and other risks and shall implement mitigation measures commensurate with the risks.

3. Customer management policy

The Bank shall establish a system for conducting confirmation appropriately at the time of transactions and other customer management measures in accordance with the applicable legal and regulatory requirements. It shall also examine and analyze customer transaction records periodically and implement necessary customer management measures.

4. Reporting of suspicious transactions

The Bank shall confirm and determine whether transactions reported by its branch offices or detected through transaction monitoring are suspicious and shall notify the authorities immediately if it determines that a transaction is suspicious.

5. Correspondent bank management

The Bank shall collect information on correspondent banks, assess it adequately, and take proper measures in response to the risks associated with it. It shall eliminate any relationships with spurious banks that have no actual business operations as well as any business with correspondent banks that engage in transactions with fictitious banks with no business presence.

6. Management and employee training

The Bank shall conduct ongoing training programs to educate its officers and employees fully with respect to money laundering to raise their levels of expertise and assure proper responses.

7. Compliance auditing

The independent Internal Audit Department shall conduct regular audits of the Bank's money-laundering prevention and related systems, and the Bank shall draw on the results of the audits to improve its systems further.

8. Economic sanctions and asset freezing

The Bank shall take such appropriate measures in accordance with domestic and foreign laws and regulations as eliminating business relationships with parties subject to economic sanctions and freezing their assets.

9. Anti-bribery and anti-corruption actions

The Bank shall comply with the main objectives of laws and regulations related to the prohibition of bribery and the prevention of corruption. It shall refuse any requests to engage in bribery and avoid providing entertainment or gifts that exceed the socially acceptable value.

We shall endeavor, moreover, to ensure that our officers and employees are trained in the highest professional ethics. We have established guidelines regarding business entertainment and gifts, etc., with which our officers and employees are required to comply.

Strengthening credit risk management

Credit risk is the risk of incurring losses due to a decrease or loss of the value of assets stemming from deterioration of the financial condition of the creditor. We contribute to our customers' development through solutions based on our "know your customer" efforts, offering thorough financial and/or core business support to improve the quality of the Group's assets at the same time.

Risk management systems

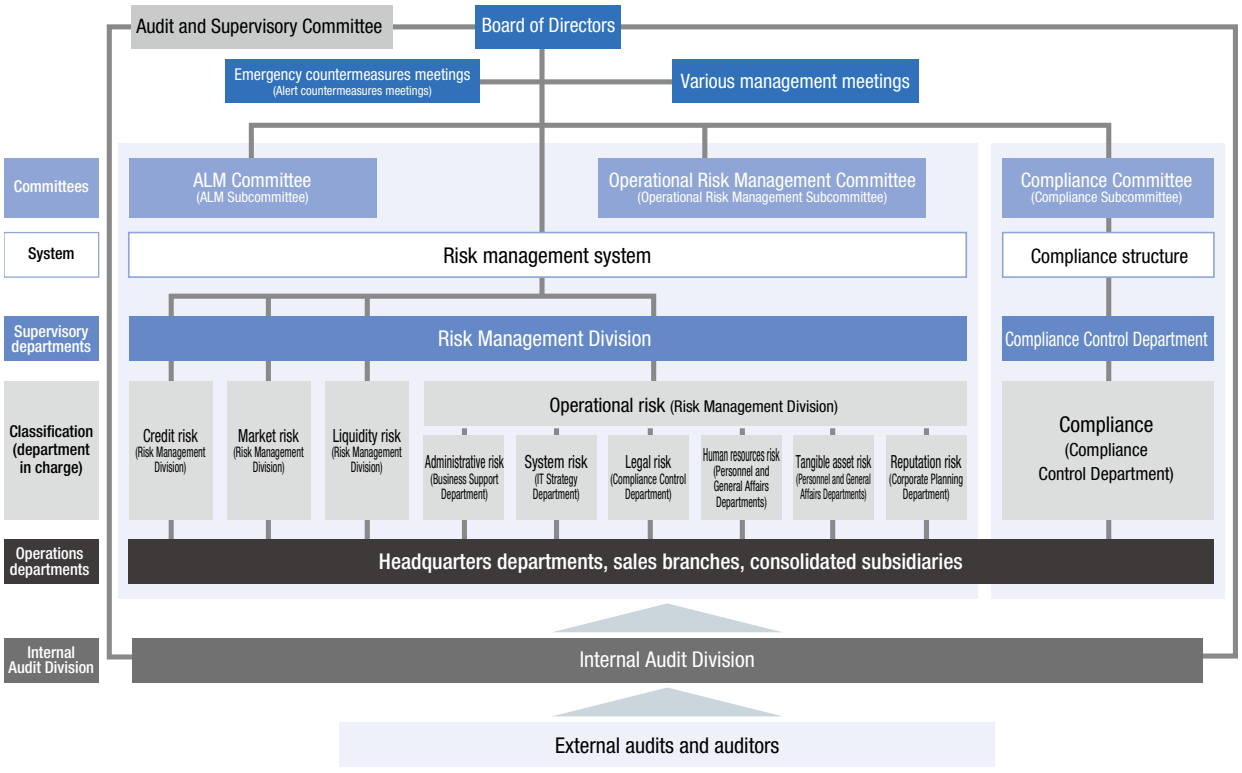
Integrated risk management

To reinforce our ability to manage the risks we face in our banking business, Nanto Bank has assigned responsibility for each risk to an appropriate department and established the Risk Management Division to handle them in an integrated manner by determining the various risks' individual positioning and magnitude and responding to each promptly and accurately.

In our commitment to risk management, we have specified basic risk management policies through various directives, including our "Integrated Risk Management Regulations."

To realize integrated risk management in which risks are quantified on a unified scale and the amount of each is controlled to an appropriate level in relation to equity capital in consideration of management strength, we determine the risk capital allotment (capital allocation amount) for each type of risk semi-annually within the range of equity capital, and control each risk amount (value at risk = VaR, etc.) to ensure that it falls within the scope of capital. The ALM Committee evaluates the status of each risk at its monthly meetings as part of efforts to achieve more efficient, effective risk / return management, and systems are in place to exercise appropriate controls for ensuring management stability and improving profitability from the perspective of effective use of capital.

■Risk management organization



Crisis management system

Nanto Bank's risk management systems, discussed below, are reinforced by a Crisis Management Plan that is accompanied by a response manual for every type of crisis that might impact our business. The topics include natural disasters ranging from large-scale earthquakes and system failures to infectious disease epidemics. In the event of a crisis, the Emergency Countermeasures Meeting or Countermeasures Head Office gathers response information calibrated to the degree of the crisis and disseminates centralized guidance and orders to minimize its impact on operations.

We also implement measures to ensure the Bank's ability to continue providing customer services as one of the service providers playing an essential role in maintaining social functions. These include such measures as enhancing our facilities to enable continued operation, even in the event of a disaster, and ensuring the effectiveness and continuous improvement of our Crisis Management System through crisis management drills and other measures.

Responding to Diverse Risks

■Commitment to strict compliance

Compliance systems reinforcement

Compliance must always be ensured in observance of not only laws, government ordinances, and internal rules, but also of ethical and social norms. It is imperative that banks fulfill their social responsibilities and public missions in good faith. At Nanto Bank, we are implementing the following measures to ensure our full compliance with any and all applicable rules:

- Being fully aware of our public mission and social responsibility as a financial institution, Nanto Bank seeks to gain the trust of its stakeholders, including its regional community and shareholders, by positioning compliance with laws and regulations as the most important issue for management. To this end, we have formulated "Basic Guidelines" and a "Code of Conduct" as corporate policies, with which all the Bank's officers and employees must comply.
- The Bank formulates a Compliance Program including these policies each fiscal year and ensures that it is shared with and observed by all its Group member companies. The progress and status of achievement of the Compliance Program is verified semiannually and reported to the Compliance Committee and the Board of Directors.
- In order to define a basic framework for our compliance systems, we have clarified our stance toward compliance with laws and regulations, not only by establishing compliance regulations but also by formulating disciplinary regulations that show the fairness and transparency of our disciplinary actions.
- We have established a Compliance Committee chaired by the President to serve as a cross-sectional organization within the Bank that discusses and decides important matters related to compliance, as well as a supervisory department responsible for planning and supervising compliance.
- Each fiscal year, we prepare a compliance program as a concrete, practical plan for achieving compliance, after which we investigate the program's implementation status and make appropriate revisions.
- We are pursuing efforts to optimize operation of our compliance hotline, a whistle-blower system established for purposes of prevention and early detection and correction of violations of laws and regulations, harassment, and corrupt practices such as bribery. For the purpose of protecting whistleblowers, we accept anonymous or publicly known names and conduct investigations under strict information management, such as management ensuring that information concerning informants will be handled only by the informant's contact person to prevent identification of the whistleblower. We also ensure that whistleblowers are not searched or treated unfavorably in any way, including through personnel actions, because of their reporting.
- As concerns violations of laws and regulations and various types of harassment, the Bank provides guidance for managers through annual training of compliance officers and training at the time of promotion to managerial positions. It holds monthly compliance study sessions featuring lectures by personnel responsible for compliance in each department and branch office, moreover, in an effort to raise awareness among all its employees concerning prevention of legal violations and harassment.
- We have compiled a "Compliance Handbook" to serve as a detailed guide to maintaining compliance, and we are following up with efforts to foster a compliance mindset by distributing the handbook to all our management and general personnel, and by holding regular group training and study sessions at every workplace.
- In accordance with our resolute attitude toward antisocial forces that threaten the order and safety of civil society, we have formulated a set of "Regulations for Dealing with Antisocial Forces, Etc." to establish and maintain a system that eliminates any relationships with antisocial forces.

Nanto Bank Group's Human Rights Policy

The Nanto Bank Group recognizes respect for human rights as an important management issue that must be properly addressed. To this end, we have formulated the Nanto Bank Group Human Rights Policy to assure that every Group member respects, protects, and promotes the human rights of all our stakeholders in every business activity.

Nanto Bank Group's Human Rights Policy **https://www.nantobank.co.jp/company/sustainability/jinken.html**

Whistleblower hotline

The Bank has established a compliance hotline to strengthen its compliance management by providing the officers and employees of the Bank and its Group companies with an enhanced ability to detect and correct violations of laws and ordinances at an early stage.

Reporting content

Violations of laws and regulations or issues related to compliance and ethics involving the Bank or Group companies, officers, or employees.

[Persons who have been retired from Nanto Bank or a Group company for less than one year]
[Reporting contact] (Internal contact) Name: Compliance Management Department, The Nanto Bank, Ltd.
(External contact) Name: Ohmine Law Office

[All officers and employees (including those who have retired within the past one year) of entities handling business outsourced by Nanto Bank and its Group companies]
[Reporting contact] Name: Ohmine Law Office

Whistleblower Hotline **https://www.nantobank.co.jp/hotline/**

■Cyber security initiatives

The Bank has compiled a policy on cyber security initiatives to reinforce its protection against cyber-attacks and other such threats.

Action Initiatives

With cyber-attacks threatening to become increasingly serious in the future, we recognize optimizing our cyber security to ensure the safety of our customers and assets as an important issue for management. Nanto Bank's CSIRT* plays a central role in ongoing Bank-wide efforts to implement effective cyber security related to the mid-term "road map" as well as to enhance our readiness to respond promptly to cyber-attacks.

*CSIRT: A security organization designed to respond to incidents related to computer security

Management involvement

Under the Information Asset Management Regulations, the director responsible for the IT Strategy Department serves as General Manager of the Computer Security Incident Response Team (CSIRT). The Nanto Bank CSIRT Meeting reviews progress on the medium-term roadmap and annual plans for cybersecurity, as well as the operating environment and related issues. Matters of special importance, such as changes in the Group-wide security architecture and the results and response policies generated from self-assessments concerning the establishment of a cybersecurity system, are discussed and reported at Management Meetings. The current status of cyberattacks and domestic and international trends are reported to the CSIRT General Manager and the Operational Risk Management Committee, meanwhile, as part of efforts to establish a cybersecurity system that can be led by management under normal circumstances.

Outsourcing management

We use cloud services or external information systems that meet our information system security standards only after examining the security measures they employ. In addition, we routinely review such introduced services as a follow-up regimen.

In-house Awareness

In light of recent technological advances, we are conducting online training for all our employees to improve their IT and security literacy. We are also conducting targeted email training for all our Group employees in response to recent trends in threats, monitoring responses to suspicious emails, and fostering a security mindset throughout the organization using training results and awareness-raising activities concerning threat trends.

Audit structure

The Audit Department and leading consulting firms conduct joint cybersecurity audits to ensure the implementation of advanced audits in accordance with recent trends in the threat environment surrounding financial institutions. After completing organizational and technical audits based on guidelines such as the "Cybersecurity Management Guidelines" (Ministry of Economy, Trade and Industry) and "CIS Controls" (US CIS), the Nanto Bank's CSIRT manages and continuously addresses any issues it identifies in its annual plan, while the Audit Department monitors the progress of these efforts to strengthen the Group's cybersecurity management systems.

■Internal audit structure

Basic Internal Audit Policy

To ensure sound management and appropriate operations, our Basic Internal Audit Policy calls for an effective, independent audit framework that verifies and evaluates the appropriateness and effectiveness of internal controls and strengthens those controls through recommendations for improvement and other measures.

Internal Audit Structure

The Audit Department reports directly to the Board of Directors to ensure its independence to assure the sufficiency of checks and balances on audited departments. The Department strives to optimize its internal audits' effectiveness by conducting them rigorously with reference to the "Mid-Term Internal Audit Plan" approved by the Board of Directors and the "Internal Audit Plan," which formulates audit policies for each fiscal year.

Nanto Bank Group's Internal Audit https://www.nikkei.com/nkd/disclosure/tdnr/20250619593814/ Corporate Governance Report, pages 12-13

■Corporate governance structure