Enhancing the Risk Management System

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.

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 Department to handle them in an integrated manner by determining the various risks' individual positioning and magnitude and responding to each promptly and accurately.

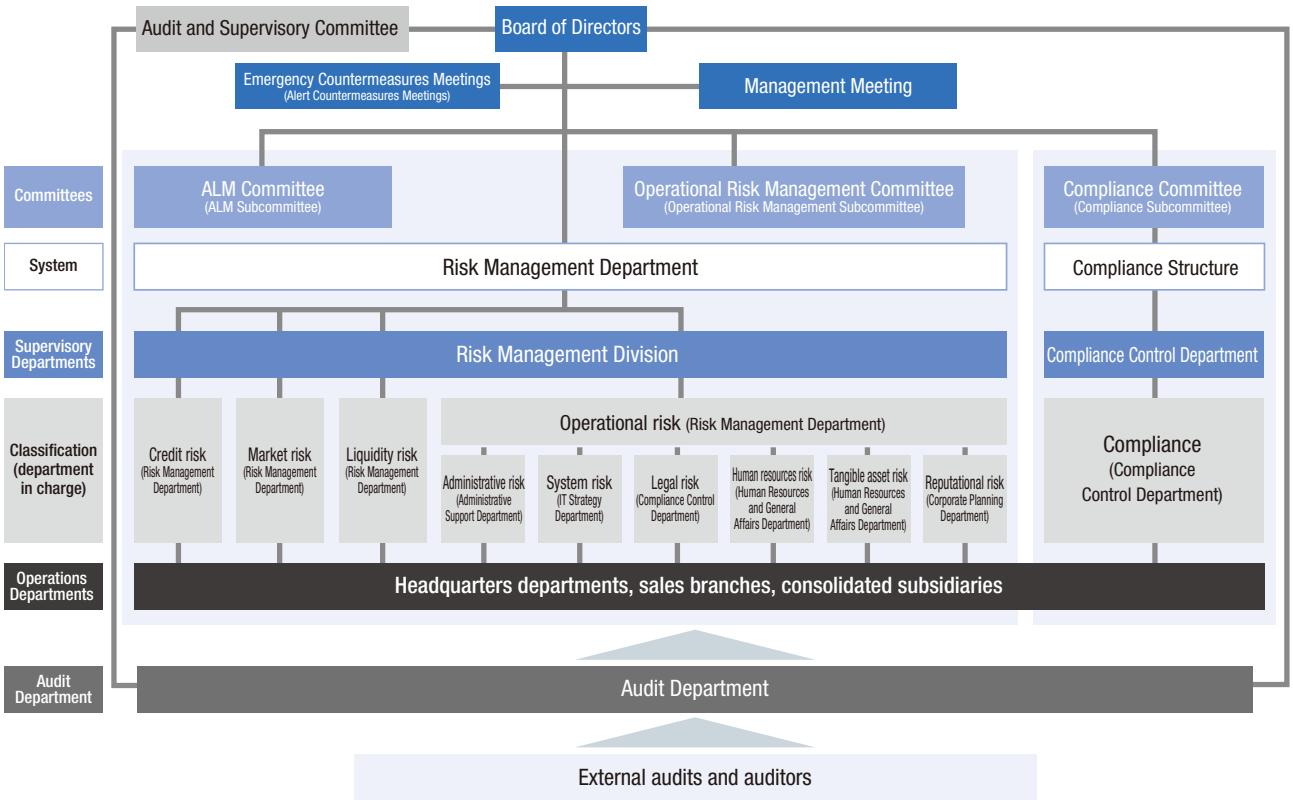
In our commitment to risk management, we have specified basic risk management policies through various directives, including our Integrated Risk Management Regulations.

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 its 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.



- **Operational/processing risk**
  (Ensuring accurate and reliable back-office processing)
- **System risk management**
  (Response to system failures/prevention of unauthorized use)
- **Legal risk management**
  (Monitoring of legal compliance)
- **Human risk management**
  (Response to personnel and labor problems)
- **Tangible asset risk management**
  (Response to impairment of tangible assets)
- **Reputational risk management**
  (Response to false assertions circulating in the market and among customers)

■Risk management organization



Crisis management system

Nanto Bank's risk management systems, discussed below, are reinforced by a Crisis Management Plan and an accompanying 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 Crisis Management Headquarters and other relevant bodies will gather information and communicate requisite 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.

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."). In this context, we have positioned money laundering etc. 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, etc. 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, 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, etc.

1. Organizational structure

(1) The Bank considers countermeasures against criminal activities such as money laundering, etc. 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, etc. 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, etc. 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, etc. 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, 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.

Responding to Diverse Risks

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:

- Fully aware of its public mission and social responsibility as a financial institution, the Bank seeks to gain the trust of all our stakeholders, including our 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 the operation of our compliance hotline, a whistle-blower system established for purposes of prevention, early detection and response to violations of laws and regulations, harassment, and corrupt practices such as bribery. To protect whistleblowers, we accept reports made anonymously or under their real name and conduct investigations under strict information management, including management ensuring that their personal information is handled only by a designated contact person in strict compliance with confidentiality standards to protect their identity. We also ensure that whistleblowers are not tracked down or treated unfavorably in any way, including through personnel actions, because of their reporting.
- Our efforts to prevent violations of laws and regulations, harassment, bribery, and other acts of corruption include conducting annual training sessions and providing guidance for all our executives and employees. We also hold monthly compliance seminars at every branch and office, moreover, led by compliance officers assigned to the local area, and seek to raise awareness among our executives and employees regarding prevention of law-breaking 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.

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 efficient execution of its oversight function with respect to the departments it audits. The department conducts audits in accordance with the Internal Audit Regulations established by the Board of Directors. The Medium-Term Internal Audit Plan formulated to systematically implement continuous improvement of internal audits, moreever, and the Internal Audit Plan presenting the audit policies for specified fiscal years are subject to approval by the Board of Directors. Prior to submitting these plans to the Board for deliberation, the Audit Department must obtain the consent of the Audit and Supervisory Committee. These plans are drawn up in consideration of the Bank's management policies, changes in the external environment, and trends in various risks as well as the opinions of the Board of Directors and the Audit and Supervisory Committee. The Audit Department strives to strengthen governance by maintaining close cooperation with the Audit and Supervisory Committee, through procedures including regular reporting and consultation regarding the annual internal audit plan, internal audit results, and various internal and external information.

Internal audits are conducted at branch offices, Headquarters, and consolidated subsidiaries. In addition to comprehensive audits verifying the appropriateness and effectiveness of the Bank's overall internal control system—including its compliance and risk management—partial audits designed to counter fraud and misconduct, and follow-up audits to confirm the status of improvements, the Bank also conducts cross-organizational thematic audits to verify the status of responses to management issues and significant risks.

Initiatives to enhance our internal auditing

The Audit Department is working to improve the effectiveness and quality of internal audits based on its Medium-Term Internal Audit Plan.

As part of these efforts, we are establishing and implementing a risk-based audit approach designed by refining our risk assessments and enhancing our off-site monitoring. These developments enable us to accurately identify the occurrence and magnitude of changes in the risk environment and to prioritize the allocation of audit resources to high-risk areas. By enhancing our thematic audits which verify the status of responses to management issues and key risks—we are constructing an audit system that responds quickly and effectively to changes in the business environment.

In addition to making continuous improvements through regular quality assessments, we are seeking to enhance the internal audit function sustainably by improving our audit quality in accordance with global internal audit standards, as well as by cultivating top-flight audit personnel with enhanced expertise.

Nanto Bank Group's Internal Audit https://www.nikkei.com/nkd/disclosure/tdnr/20260623576619/ Corporate Governance Report, pages 13-14

Nanto Bank Group's Human Rights Policy

The Group recognizes respect for human rights as an important management issue that requires a proper response. We responded by compiling 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 Human Rights Policy

The Nanto Bank Group recognizes respect for human rights as a crucial management issue to be addressed in order to realize sustainable management that grows with the community. We have accordingly established the Nanto Bank Group Human Rights Policy as an initiative promoting respect for human rights in our business activities.

We will comply with the laws and regulations of every country and region concerned in all our business activities and fulfill our responsibility to respect human rights.

In the event of a conflict between the laws and regulations of a specific country and internationally recognized norms, we will seek ways to support and respect internationally recognized human rights-related norms, regardless of whether the country in question recognizes a legal obligation to respect human rights.

Respect for international standards

The Nanto Bank Group complies with the laws and regulations applicable in each country and region in which it conducts business. As concerns human rights, the Group supports and respects international standards such as the International Bill of Human Rights, the Guiding Principles on Business and Human Rights, the International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work, and the Principles on Children's Rights and Business.

Scope of application

This policy applies to all officers and employees of the Nanto Bank Group.

We also expect all our stakeholders—including our customers and suppliers—to be made aware of and supportive of our policy.

Regarding our customers

The Nanto Bank Group respects the human rights of our customers and strives to ensure that they experience no discriminatory treatment in the provision of our services.

We will work together with our customers to resolve human rights issues, moreover, and ask them to refrain from infringing on human rights.

If the services we provide are linked to human rights violations, the Nanto Bank Group will respond appropriately and will encourage our customers to take appropriate action as well.

Regarding our suppliers

The Group also respects the human rights of its suppliers and requires them to refrain from infringing upon others' rights. If a supplier is found to be impacting human rights negatively, the Nanto Bank Group takes appropriate action and encourages the supplier to do the same.

To all employees and corporate officers

The Nanto Bank Group respects the human rights of all its employees and officers—and refuses to tolerate discrimination or human rights violations based on nationality, race, ethnic origin, social status, religion, beliefs, age, gender, sexual orientation, gender identity, disability, or any other grounds under any circumstances. We encourage equal relationships in which employees and executives recognize one another as business partners and exchange opinions freely, thus fostering a corporate culture that rejects harassment and respects human rights. We strictly prohibit harassment, employ established consultation channels, and work to create comfortable work environments.

The Nanto Bank Group recognizes freedom of association and the right to collective bargaining as rights of its officers and employees. While promoting compliance with laws and regulations and respect for these rights, we strive to ensure appropriate communication between management and labor.

The Nanto Bank Group follows laws and regulations, including the Labor Standards Act, governing working conditions in the Group. Our basic policy is to strive to curb excessive workloads and reduce overtime, provide a workplace environment where employees can work safely and in good health, and comply with the minimum wage set by law while also seeking to pay wages exceeding a living wage.

We are appropriately implementing a Japanese statutory requirement effective from April 2020, moreover, and advancing our policy of creating an environment in which all our executives and employees can find fulfillment in their work, regardless of their employment status.

Fair hiring practices

The Nanto Bank Group conducts strict, fair hiring practices based on an individual applicant's character, abilities, and aptitude.

Human rights due diligence

In deploying human rights due diligence, the Nanto Bank Group is committed to preventing and mitigating any adverse impacts on human rights resulting from its business activities.

Management systems and training

We report to management on the status of our initiatives regarding respect for human rights, verify their effectiveness, strive to improve them, and revise our policies as necessary. We also conduct training sessions to deepen employees' knowledge and understanding of human rights.

Remedial measures

If it becomes apparent that officers or employees of the Nanto Bank Group or the services it provides have caused or been involved in inflicting an adverse impact on human rights, the Group takes appropriate actions and works to remedy the situation.

Disclosure and dialogue

We are committed to actively disclosing information regarding the Nanto Bank Group's human rights initiatives. We employ dialogue with our stakeholders, moreover, in our efforts to improve and enhance these initiatives.

Whistleblower hotline

To ensure early detection and prompt remediation of legal violations and other misconduct involving the Bank, its Group companies, or their respective officers or employees, the Bank has established an internal reporting channel—the Compliance Hotline—which enables strict information management in accordance with confidentiality standards, and dedicated to strengthening the Bank's compliance-oriented management. We observe strict confidentiality protocols—including measures to ensure that information regarding whistleblowers is handled exclusively by designated personnel. We conduct investigations in a manner that securely protects the whistleblower's identity from exposure. We are also fully committed to ensuring that whistleblowers are not tracked down, and that they do not face any adverse treatment, in personnel or official circumstances, in response to filing a report.

Reporting content

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

[All officers and employees of Nanto Bank and its Group companies, including those who left within the past year]
[Reporting contact] (Internal contact) Name: Compliance Control 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/