

# Risk Management

## I. Basic Policy for Risk Management

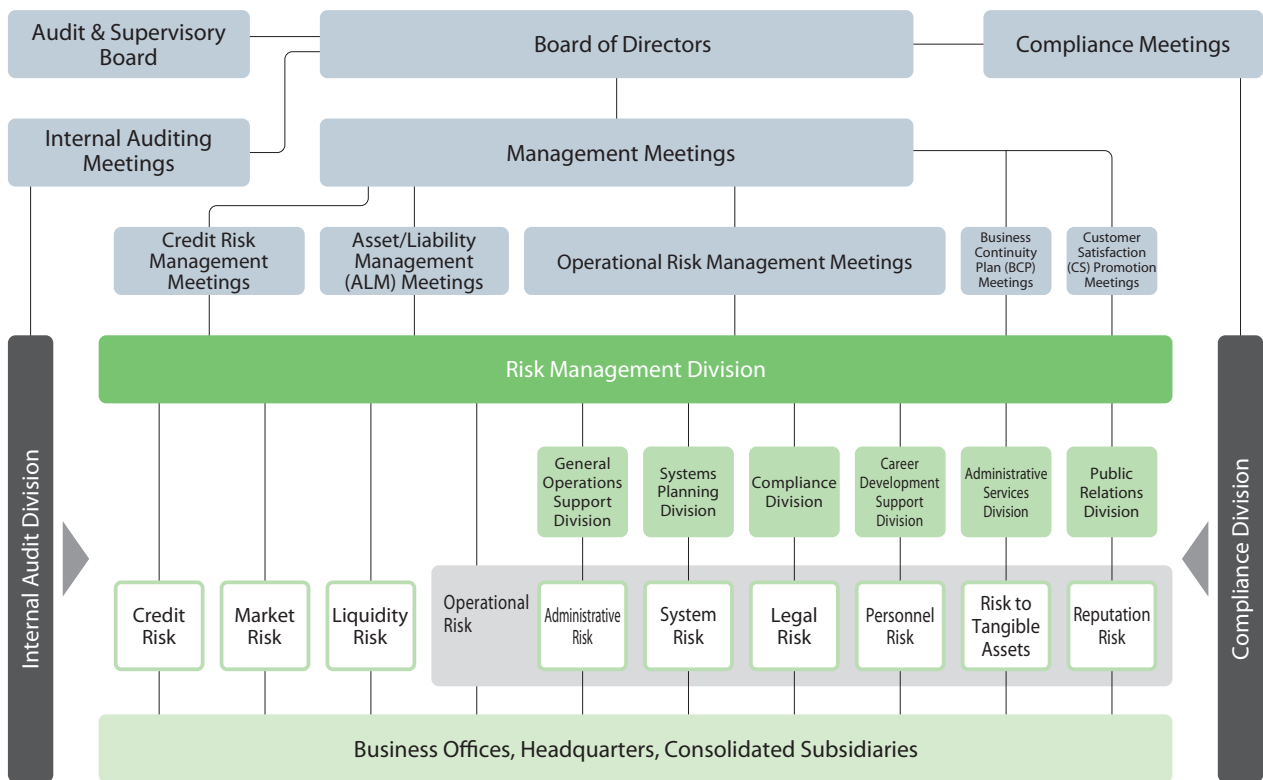
In order to sufficiently exhibit our role as a financial institution specializing in SMEs while maintaining the soundness of management, the Shoko Chukin Bank has laid down its basic policy of thoroughly communicating the importance of risk management to all officers and employees, and accurately grasping and managing risks by defining the type of risks that should be recognized, their content and the organizational structure for managing such risks.

## II. Risk Management Structure

The Shoko Chukin Bank, in light of the importance of risk management, conducts risk management with the ample involvement of senior management. Specifically, important matters on risk management are deliberated and decided at the Board of Directors meetings or the Management Meetings, while periodic reports are given to the Board of Directors on the status of risk management, as well as its issues and countermeasures.

Additionally, divisions to manage the risks are designated for each type of risk, and management specific to the features of risk is conducted while the Risk Management Division comprehensively monitors these risks and supervises risk management as a whole.

### ◆ Risk Management Structure and System



## III. Integrated Risk Management

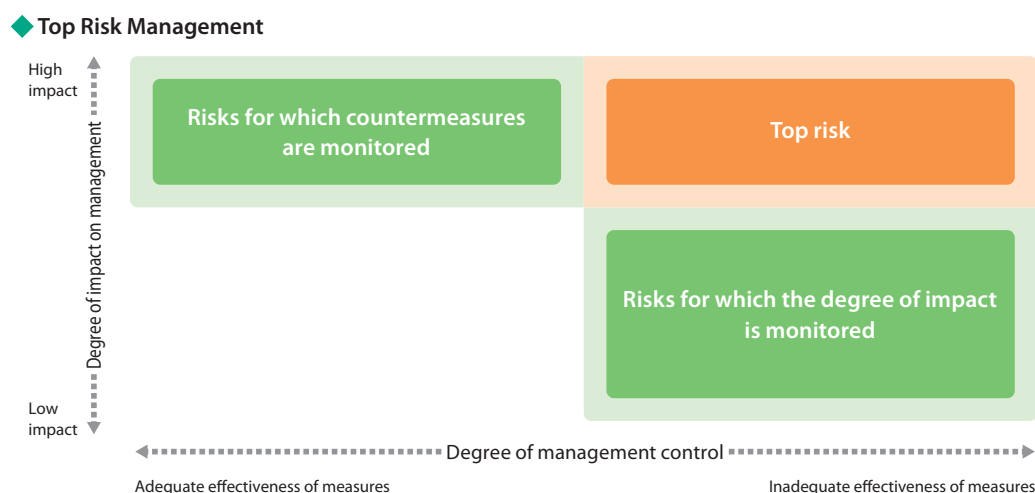
The Shoko Chukin Bank comprehensively understands risks that have been qualitatively or quantitatively assessed and ensures the soundness of management by comparing and contrasting such risks against its financial stability while allocating appropriate management resources commensurate with such risks. Top risk management and risk capital allocation management are undertaken as a concrete process within this framework.

## IV. Top Risk Management

The Shoko Chukin Bank has adopted “Top risk management,” which, based on the discussions of senior management, recognizes risk events thought to have a particularly significant impact on management as top risks.

Specifically, every half-year period, the Board of Directors selects risk events surrounding the Bank and determines top risks by utilizing a risk map, which takes into account the degree of impact of such risks on management and the adequacy of the countermeasures (the degree of management control).

For the top risks determined, risk management is conducted that allows for flexible responses in the event that the risk materializes, by determining the management policy and monitoring the status of the risks, among others.



### ◆ Shoko Chukin Bank’s Top Risks (as of March 2023)

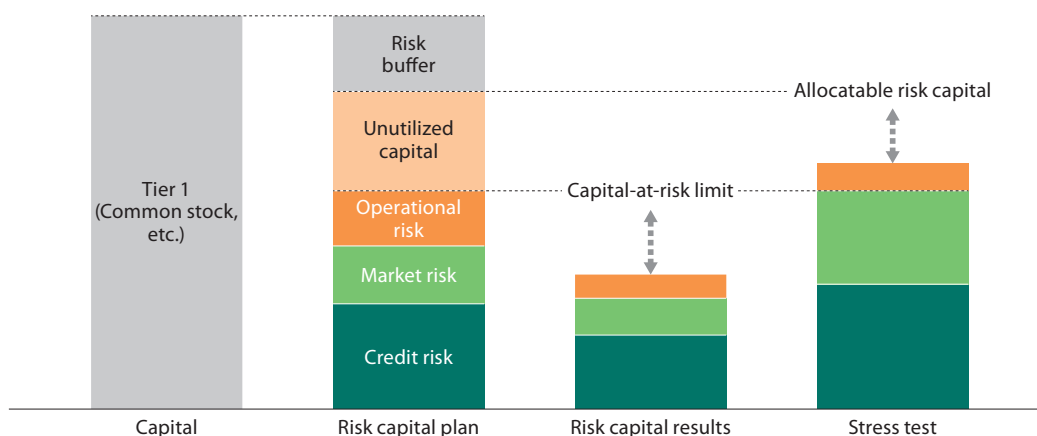
Risk events	Risk scenarios (examples)
Responses against climate change risks	<ul style="list-style-type: none"> <li>•The transition to a decarbonized society may affect customers’ businesses and increase credit costs.</li> <li>•Perceived inadequate climate change efforts and disclosures may cause reputational damage.</li> </ul>
Changes in industrial structure	<ul style="list-style-type: none"> <li>•Changes in the external environment may affect customers’ businesses and increase credit costs.</li> <li>•The competitive environment may change drastically, resulting in an erosion of the effects of strategic investments, a shortage of human resources, etc.</li> </ul>
Occurrence of large-scale natural disasters	<ul style="list-style-type: none"> <li>•Customers’ businesses may be affected and credit costs may increase.</li> <li>•The Shoko Chukin Bank’s domestic and overseas offices may be damaged, making it difficult to continue operations.</li> </ul>
Risks related to cyber attacks	<ul style="list-style-type: none"> <li>•The Shoko Chukin Bank’s operations or services may be shutdown, customer information may leak, or unauthorized transfer of funds through Internet banking may occur which could have a significant impact on its management.</li> </ul>
Securing and developing human resources	<ul style="list-style-type: none"> <li>•The lack of progress in securing and training human resources may make it impossible to implement strategies in key areas as expected.</li> <li>•Perceived inadequate human capital management efforts and disclosures may cause reputational damage.</li> </ul>
Rating downgrade	<ul style="list-style-type: none"> <li>•A downgrading of the Shoko Chukin Bank’s credit rating by a rating agency could have a negative impact on financing and market-related operations (market procurement and derivatives transactions).</li> </ul>
Inadequate measures against money laundering and terrorist financing	<ul style="list-style-type: none"> <li>•Measures against money laundering may not function effectively and administrative penalties may be imposed by the financial authorities, which may result in the termination of the correspondent arrangements and may impede international operations such as overseas remittance operations.</li> </ul>

## V. Risk Capital Allocation Management

At the Shoko Chukin Bank, we manage risks by quantifying various risks using criteria that are as uniform as possible, aggregating the risks and comparing the risks with capital (integrated capital management). The Board of Directors determines the capital-at-risk limit for overall and each risk, while periodically monitoring the status of the use of risk capital and reports to the Asset/Liability Management (ALM) Meetings and the Management Meetings.

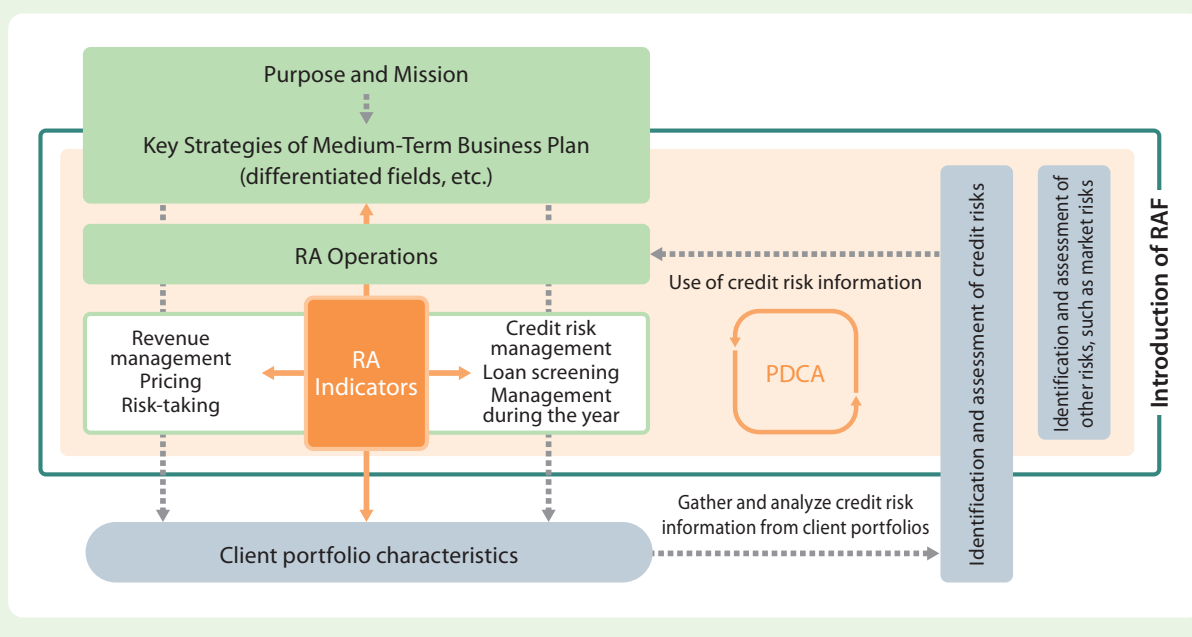
Additionally, we set multiple stress scenarios, including the re-emergence of past stress events and the occurrence of specific stress events, and conduct stress tests based on these scenarios to evaluate internal capital adequacy.

### ◆ Overview of Risk Capital Allocation Management



### ✓ TOPIC Introduction of a Risk Appetite Framework (RAF)

In order to realize the Medium-Term Business Plan, the Shoko Chukin Bank monitors risks, capital employed, and economic returns, etc., with regard to our main strategic differentiated fields and investment operations, and determines the policies to be taken in each field. New initiatives will be discussed as necessary to further advance risk management and business management.



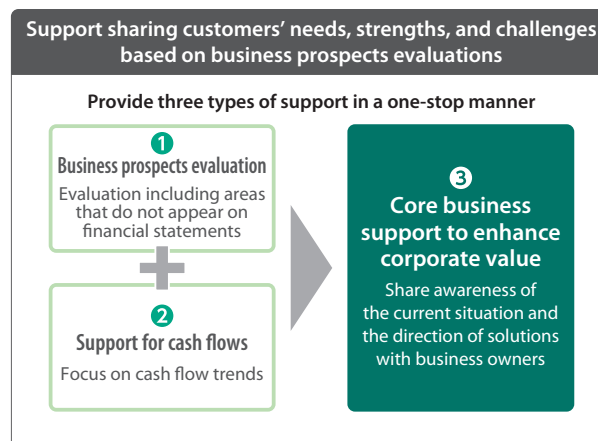
## VI. Credit Risk Management

The Bank undertakes self-assessment of its assets to identify and control credit risk in an appropriate manner and has introduced an internal credit rating system for this purpose. The Bank's internal credit rating system uses an optimal set of financial indicators to assess the creditworthiness of SMEs and also incorporates a range of qualitative assessment criteria.

Additionally, we analyze and assess the credit portfolio from various perspectives, such as by credit rating, business sector, and geographical region, aiming to improve the soundness of the Bank's assets, while also quantifying credit risk to understand and manage credit risk quantitatively.

In terms of credit screening, the Finance Group strives to maintain and improve the soundness of assets through appropriate screening and management based on business prospects evaluations. The Bank has also established the Corporate Support Division as a specialist unit to provide customers with support for management improvement and revitalization. This department proactively works with customers in this area.

### ◆ Basic Concept of Loan Screening



## VII. Market Risk Management

The Bank controls the volume of market risk within a certain range by setting risk limits within the scope of the capital-at-risk limit allocated to market risk by objectives of the task and type of risks, and also setting limits on amount of positions and valuation gains and losses, and managing these limits.

## VIII. Liquidity Risk Management

The Bank appropriately controls liquidity risk by setting various limits related to liquidity risk involving yen and foreign currencies and managing such limits.

Additionally, the Bank appropriately controls liquidity risk by classifying the status of cash flows into three categories, "Normal times," "Times of concern," and "Times of crisis," managing the cash flows according to each category, and formulating specific measures at Times of concern and Times of crisis.

## IX. Operational Risk Management

The Shoko Chukin Bank manages operational risk by classifying it into the six sub-risks consisting of administrative risk, system risk, legal risk, personnel risk, risk to tangible assets, and reputation risk.

In its role of overseeing operational risk, the Risk Management Division is responsible for managing and minimizing operational risk, as it relates to the Bank as a whole. In this context, the Division has formulated the Basic Guidelines on Operational Risk Management. In addition, we have established a department in charge of each sub-risk to manage risk according to the attributes of each risk in an effort to minimize risk.

A Risk Control Self-Assessment (RCSA) has been introduced for risk management, whereby the department in charge of operations monitors losses that occur and also identifies and evaluates inherent risk. The Bank is promoting initiatives to make improvements based on this evaluation.

In addition, the Operational Risk Management Meetings deliberate on matters relating to operational risk. These include efforts to clearly identify operational risks and to establish countermeasures to ensure their reduction.