

Risk Management and Compliance Initiatives



Message from the Executive in Charge

Establish self-directed, sound compliance and risk-consciousness as a corporate culture and create the foundation to realize our PURPOSE

Satoshi Yamaguchi
 Managing Executive Officer, Chief Compliance Officer
 and Chief Risk Officer, Head of Risk Management Unit

Chief Compliance Officer: Responsible for developing and operating the compliance systems and overseeing and checking business execution
 Chief Risk Officer: Responsible for developing and operating the risk management systems and overseeing and checking business execution

The Shoko Chukin Bank Group has reached a major turning point with privatization and is now in the midst of a corporate transformation looking ahead to the next decade. To steadily carry out this transformation and ultimately realize our PURPOSE, it is essential that we continuously review our compliance systems and risk management, which form the foundation, so that we can respond accurately to a rapidly changing environment and the provision of new services, etc., and that all officers and employees take ownership of these efforts. I recently assumed the role of Chief Compliance Officer and Chief Risk Officer. Going forward, I will exercise strong leadership to further strongly promote these initiatives together with the concerted effort of all Group officers and employees.

Compliance is the foundation for the Shoko Chukin Bank Group to earn the trust of society. Reflecting on the misconduct in crisis response operations announced in 2016, we conduct continuous training and education to ensure that every officer and employee shares a firm determination never to take actions that betray the trust of our stakeholders or turn a blind eye to it, and that they perform their duties with sincerity and fairness. In addition, in response to the changing internal and external

environment, etc., we have designated priority initiatives such as strengthening information management systems, preventing insider trading and other unfair transactions, and enhancing the effectiveness of AML/CFT measures.

With regard to risk management, we focus on the basic idea of “there is no profit without taking risks, and we must think properly about which risks to take.” Against this backdrop, I see enhancing risk communication with customer-facing divisions/ departments, which are the risk owners on the first line, while raising awareness among individual employees, as a challenge.

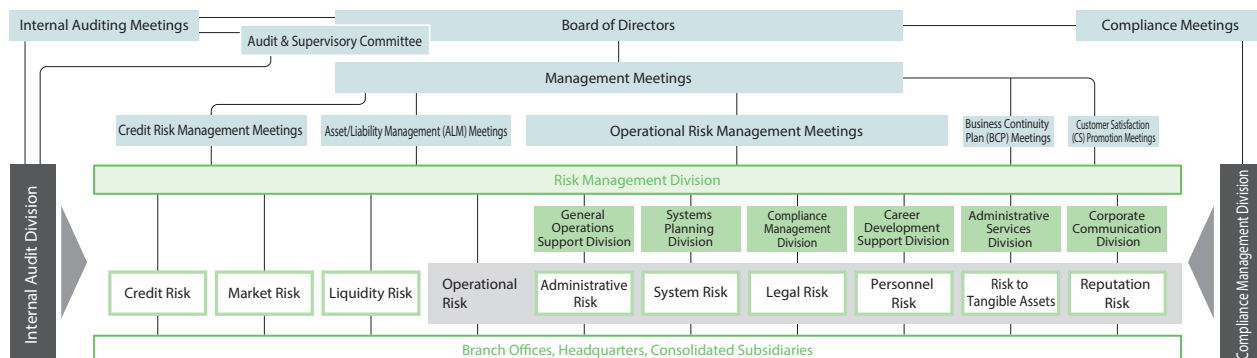
We will also sophisticate our systems for accurately grasping and analyzing risks by strengthening monitoring in focus areas, such as loans for startups, and improving credit risk detection through the use of AI and highly granular data. In addition, as a world with interest rates becomes firmly established in Japan, upgrading the management of interest rate risk and liquidity risk is also an important issue.

Going forward, we will continue to deepen our efforts to foster a sound corporate culture and create social value, thereby fulfilling our responsibilities as a trusted financial institution.

Risk Management Initiatives

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 for risk management 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.

■ Risk management structure and system



I. Integrated Risk Management

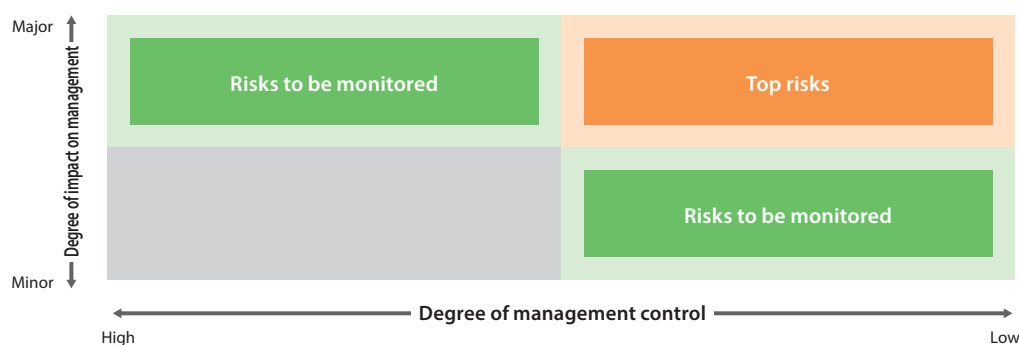
The Bank comprehensively understands risks that have been qualitatively or quantitatively assessed and ensures the soundness of management by comparing and contrasting such risks against its financial stability while allocating appropriate management resources commensurate with such risks. Top risk management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

II. Top Risk Management

The 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.

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



■ The Shoko Chukin Bank's top risks (for FY2025)

Risk events	Risk scenarios (examples)
Risks related to the Shoko Chukin Bank Group's business strategies	<ul style="list-style-type: none"> The Shoko Chukin Bank may be unable to fulfill the functions and roles it is expected to perform, including exercising effective marketing function with an eye to long-term changes in industrial and social structures, and planning and implementing initiatives aimed at improving productivity, greening, and digitalization for both the Shoko Chukin Bank and its customers.
Risks related to DX	<ul style="list-style-type: none"> A shortage of specialized personnel in DX and digitalization, etc., may delay the organization-wide adoption of services and operations that utilize digital technology and IT, hinder transformation, and result in a significant decline in productivity and competitiveness.
Securing and developing human resources	<ul style="list-style-type: none"> The lack of progress in securing and training human resources may make it impossible to implement strategies in key areas as expected. Perceived inadequate human capital management efforts and disclosures may cause reputational damage.
Changes in industrial structure	<ul style="list-style-type: none"> Changes in the external environment may affect customers' businesses and increase credit-related expenses. The competitive environment may change drastically, resulting in an erosion of the effects of strategic investments, a shortage of human resources, etc.
Responses against climate change risks	<ul style="list-style-type: none"> The transition to a decarbonized society may affect customers' businesses and increase credit-related expenses. Perceived inadequate climate change efforts and disclosures may cause reputational damage.
Occurrence of large-scale natural disasters	<ul style="list-style-type: none"> Large-scale natural disasters may affect customers' businesses and increase credit-related expenses. The Shoko Chukin Bank's domestic and overseas offices may be damaged, making it difficult to continue operations.
Risks related to cyber attacks	<ul style="list-style-type: none"> Cyber attacks may shut down the Shoko Chukin Bank's operations and services, cause leaks of customer information or unauthorized transfers of funds through internet banking.
Inadequate measures against money laundering and terrorist financing	<ul style="list-style-type: none"> 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.
Geopolitical risks and economic security	<ul style="list-style-type: none"> Economic security policies implemented by various countries may affect customers' business models and performance, leading to increased credit-related expenses.

III . Risk Capital Allocation Management

The Bank manages risks by quantifying various risks using criteria that are as uniform as possible, aggregating the quantified 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.

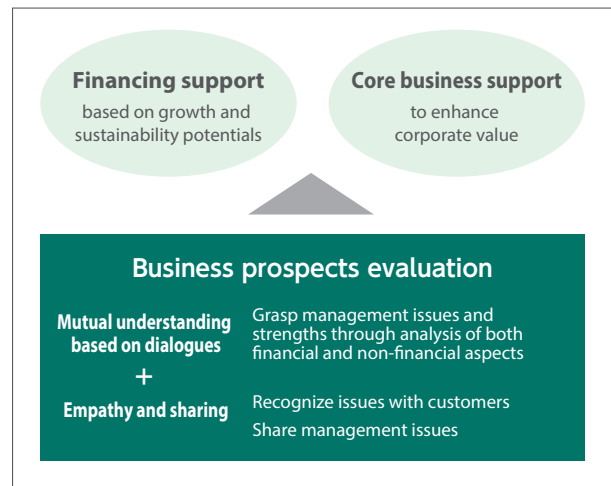
IV . Credit Risk Management

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.

We analyze the overall loan portfolio across dimensions such as credit ratings, business sector, and geographical region and discuss the results at Management Meetings. In addition, as a new initiative, we are strengthening monitoring of loans for startups, as our priority areas, in order to balance enhanced support and risk management.

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

■ Our approach to customer support based on business prospects evaluations



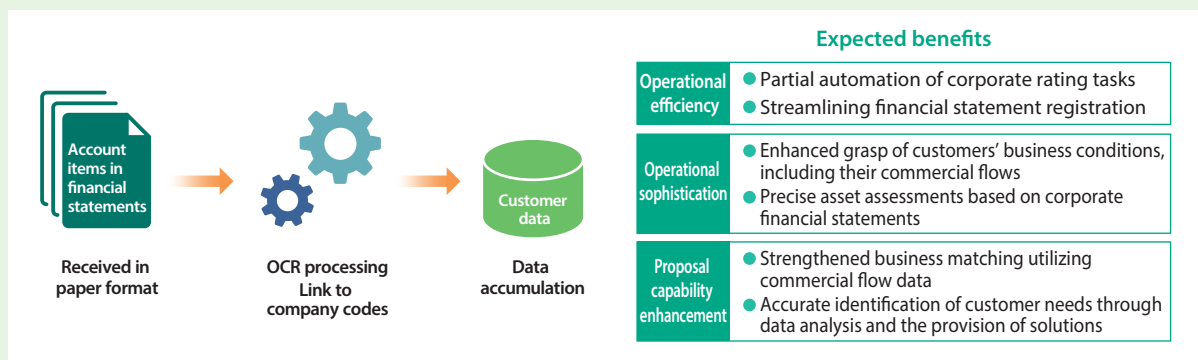
TOPIC

Development and introduction of a system to digitize account schedules

The Shoko Chukin Bank jointly developed a system to digitize account schedules with Suzuyo Shoji Co., Ltd. and Arise Innovation, Inc. The system was introduced in October 2024.

By analyzing the developed database, we will upgrade credit risk management and identify customers' latent needs, leading to the provision of optimal solutions.

■ Overview of the digitization system



V. 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.

In addition, as a world with interest rates comes and interest rate volatility increases, we are upgrading the management of interest rate risks arising from the Shoko Chukin Bank's assets and liabilities, including deposits and loans.

VI. 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, as well as 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."

Furthermore, in the new interest rate situation where competition for deposits is intensifying, we are advancing upgraded management by regularly analyzing the stickiness of each funding channel, such as individual and corporate deposits.

VII. 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.

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. 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, at the Operational Risk Management Meetings, we deliberate on matters relating to operational risk. These include efforts to clearly identify operational risks and responses to ensure their reduction.

TOPIC

Advancing our cybersecurity

In order to respond to the risk of cyber attacks, which has been becoming increasingly sophisticated and ingenious in recent years, the Shoko Chukin Bank has positioned "risks related to cyber attacks" as one of the top risks. Under the leadership of management, we are formulating a cybersecurity response roadmap and continuously advancing measures based on that plan.

Specifically, in addition to conducting practical drills attended by executives themselves, we are promoting the group-wide strengthening of our structure through the proactive involvement of management, including regular reporting to and deliberation at the Board of Directors meetings and Management Meetings on the status of cybersecurity initiatives.

In addition, through Shochu-SIRT, a cross-organizational in-house CSIRT*, we have established a system to collect information on, analyze, and respond to cyber attacks on a daily basis in cooperation with external specialized organizations.

*Computer Security Incident Response Team

Compliance Initiatives

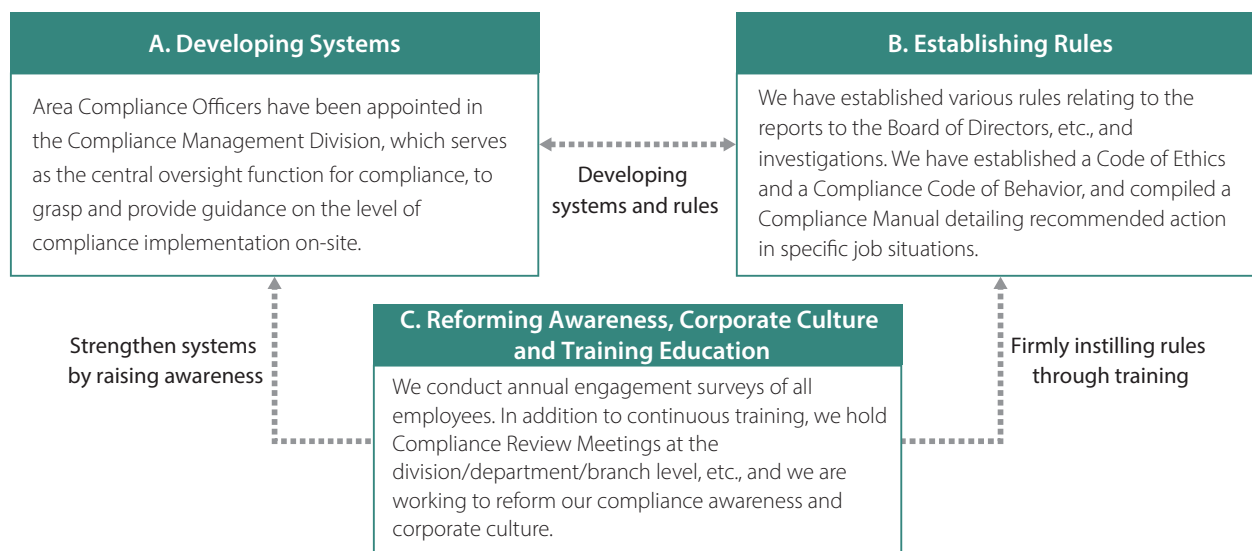
Status of the initiatives to develop compliance systems in the wake of misconduct in crisis response operations

At the Shoko Chukin Bank, we sincerely reflected on the misconduct in our crisis response operations that was announced in 2016, and have since been working to fundamentally overhaul our compliance systems.

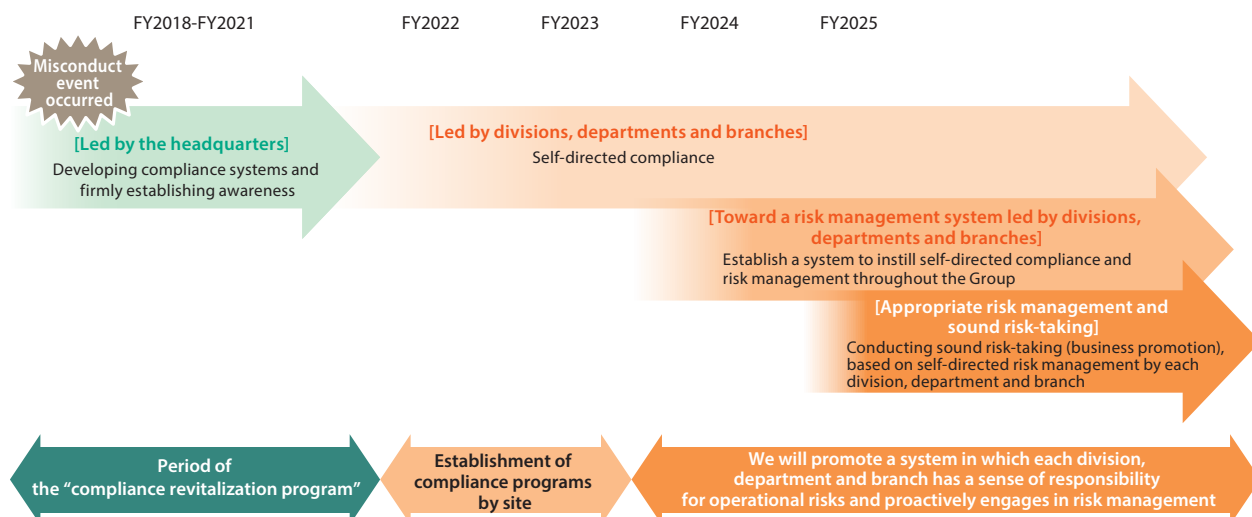
We recognize that the four fundamental causes of the misconduct in the past were: (1) a lack of internal control and excessive pressure for business performance in crisis response operations; (2) the use of crisis response loan facilities as a dominant tool; (3) the attitude of the Bank's Headquarters and management, as well as a decline in compliance awareness that led to misconduct; and, (4) a lack of governance. Based on that recognition, we have developed various approaches and have been steadily raising the officers and employees' compliance awareness.

Going forward, we will aim to transition from uniform companywide measures to the promotion of self-directed measures tailored to the issues facing each division, department and branch and to shift away from headquarters-led initiatives to "self-directed compliance" that is planned, reviewed, and operated independently by each division, department and branch.

■ Three initiatives to rebuild organization after the misconduct incident



■ Initiatives after discovering the misconduct event [overview of future initiatives]



Whistleblowing system

The Shoko Chukin Bank has established an internal and external “compliance and harassment consultation counter” and accepts a wide range of alerts and consultations for the early discovery and correction of misconduct, operational risk events, harassment, etc.

This consultation counter is operated in line with the spirit and intent of the Whistleblower Protection Act and its guidelines, with the protection of whistleblowers as the highest priority. We have established a strict information management system that accepts both anonymous and identified reports and ensures that information is handled only by a limited number of personnel engaged in whistleblower response operations. Accordingly, we take thorough measures to prevent whistleblowers from being identified and to ensure that no disadvantageous treatment, in personnel matters or otherwise, arises as a result of reporting.

Compliance Committee

■ The role of the Compliance Committee

The Compliance Committee is delegated by the Board of Directors to engage in the following three tasks, (1) to (3). The Committee is consulted on all incidents that involve personnel decisions and other disciplinary actions, ensures objectivity and fairness, and provides guidance and checks so that appropriate actions are taken.



■ Compliance Committee members

Compliance Committee members are appointed by the Board of Directors and its chairperson is elected from among members who are outside attorneys-at-law by mutual election.

Compliance Committee	Chairperson	Akira Ehira	(Attorney at law, Mori Hamada & Matsumoto)
	Vice chairperson	Katsumi Nakamura	(Attorney at law, T. Kunihiro & Co., Attorneys-at-Law)
	Member	Hideyuki Makino	(Director and Vice Chairman, the Shoko Chukin Bank)

■ Activities of the Compliance Committee

The Compliance Committee meets once a month in principle to carefully examine various agendas under the guidance of outside attorneys at law. In fiscal 2018, monitoring commenced under the Committee members (chairperson and vice chairperson) to verify the process of agenda submission to the Committee, which has contributed to preventing omissions in the agenda to be submitted to the Committee while also improving efficiency.

Initiatives to prevent insider trading, etc.

In light of insider trading incidents involving employees at other companies in recent years and the resulting increase in reputational risk, the Shoko Chukin Bank has strengthened its management system to ensure the proper handling of corporate-related information obtained from customers and the appropriate execution of securities transactions by officers and employees for personal asset management purposes.

With respect to securities transactions by officers and employees, we have introduced a system under which the Compliance Management Division grasps and confirms such transactions, and through the review of internal rules and the enhancement of training, we are committed to establishing an effective management system and continuous improvement.

Initiatives toward customer protection

The Shoko Chukin Bank has formulated the Customer Protection Management Rules and practices a customer-first management approach, to provide appropriate and sufficient explanations to customers (customer explanation management), appropriately respond to customers' requests and complaints (customer support), appropriately manage customer information (customer information management), appropriately manage customer information and appropriately respond to customers when outsourcing operations (outsourcing management), and appropriately manage transactions that may unjustly harm the customer's interests (conflict of interest management).

We have also established a Customer Service Center and set up a system for receiving requests and complaints from customers, and regarding the requests and complaints received, we discuss them at the Customer Satisfaction (CS) Promotion Meetings and make efforts to prevent recurrence and improve business operations. In addition, we have formulated and announced the CS Declaration. To appropriately oversee these initiatives toward customer protection, we have established the necessary systems such as the appointment of managers responsible for each field including the customer explanation management, customer support, customer information management, outsourcing management, and conflict of interest management.

Initiatives toward personal information protection

In keeping with the purpose of the Act on the Protection of Personal Information, we announced our declaration regarding initiatives, etc., toward the personal information protection (Personal Information Protection Declaration) on our website and other materials and we are striving to protect personal information under a rigorous safety management system and make continuous improvements. In addition, at the personal information protection contact, we offer consultation regarding personal information protection, provide information on disclosure requests and other procedures, and accept various requests.

Initiatives to prevent money laundering and other crimes

The Shoko Chukin Bank established the Financial Crimes Compliance Department in April 2020 to strengthen our systems to prevent money laundering and other crimes. Taking into account relevant laws and regulations, we are working to prevent the escalation of customer harm from special types of fraud, ensure thorough checking of overseas remittance transactions, and update relevant information.

Strengthening systems to prevent money laundering and other crimes is an international trend, and financial institutions will continue to be required to further enhance and upgrade their systems in the future. The Shoko Chukin Bank positions "inadequate measures against money laundering and terrorist financing" as one of its top risks, and is advancing initiatives such as the development and strengthening of specialized personnel and the implementation of system-based measures to address increasingly complex and sophisticated methods used in money laundering and other crimes.

Zero-tolerance of anti-social forces

As a financial institution, to maintain public confidence and ensure the adequacy and soundness of our business operations, it is required to eliminate anti-social forces from financial transactions.

The Shoko Chukin Bank develops its system aimed at the elimination of anti-social forces by taking initiatives such as designating the Compliance Management Division as a supervising division for the elimination of anti-social forces, and assigning a person responsible for elimination of anti-social forces within each division, department and branch, thereby working to cut off the relationships and eliminate transactions with anti-social forces, in cooperation with external professional bodies including the police and lawyers.