

# Framework for Business Administration (Risk Appetite Framework)

## Basic Approach

The business environment surrounding financial institutions is changing radically. For the Bank to maintain its high level of financial soundness and continue to meet stakeholders' expectations and perform its fundamental roles, it is increasingly important to recognize risks in a forward-looking perspective and control them appropriately as well as to exercise risk-taking in a disciplined manner.

To put these into practice, the Bank has introduced the Risk Appetite Framework (RAF) as a management framework. Under the RAF, the Bank works to achieve the goals set out in the priority strategies and initiatives, while also strives to foster and instill a sound risk culture that supports the management framework.

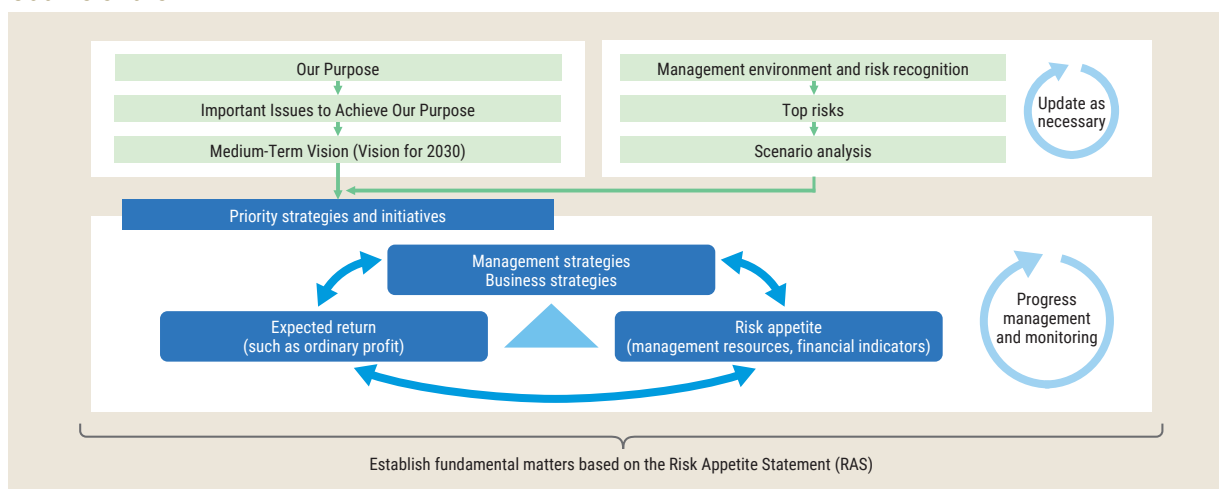
## Risk Appetite Framework (RAF)

The Bank's RAF is a framework for disciplined risk-taking and risk-return optimization that clarifies the Bank's management strategies, business strategies, expected return (types and amounts of target returns that are set as business goals), and risk appetite (types and amounts of risks that the Bank is willing to take or accept, as well as optimal management resources), and manages these elements in an integrated manner. In operating the RAF, the Bank further enhances its soundness by adapting to changes in the business environment and pursuing the optimal balance of risk and return.

## Implementation of the RAF

The Bank issues its Risk Appetite Statement and establishes and documents fundamental matters regarding RAF management. In developing management initiatives, the Bank bases the approach on its Risk Appetite Statement, identifying the "Top Risks" (risk events that require particularly close attention), by taking into account the business environment and risk recognition, and analyzing scenarios of risk events that could happen in the future. Based on the analysis results, the Bank determines its management initiatives by clarifying expected returns and risk appetite associated with the implementation of management and business strategies. In addition to clarifying the policies for managing expected return and risk appetite, the Bank sets the Key Goal Indicators (KGIs) and Risk Appetite Indicators. During a fiscal year, the Bank monitors the status of management strategies, business strategies, expected return and the risk appetite while updating its business environment and risk recognition, and reviews any of these as necessary; the RAF is integrated with the PDCA cycle of its management initiatives.

## Outline of the RAF



## Examples of Top Risks

Risk events	Risk scenario (example)
Significant deterioration of the financial market environment	Adverse effects on the financial base due to credit deterioration resulting from factors such as severe economic recession and geopolitical risks
Climate change, biodiversity, and other sustainability-related issues	Deterioration of the financial base and reputation, loss of trust from stakeholders, and adverse effect on AFF industries and local communities due to delay in response to environmental issues such as climate change and biodiversity
Impact associated with changing circumstances of the AFF industries	Negative effects on the business foundation due to continued global inflation and changing demographics, including the acceleration of regional population decline and aging society
Changing environment for business and management foundation of the cooperative system	Negative impacts on the business and management foundation due to user attrition from not fully meeting user demand amid intense competition and aging society
Increase in financial crimes (shortage of victim relief measures, user protection, anti-money laundering measures)	User attrition caused by the misuse of the Bank's financial services by financial criminals
Occurrence of damages caused by cyberattacks	Long-term suspension of customer services caused by damage to systems, payment of large amounts of damage compensation, and damage to the Bank's reputation

Note: Please note that the above are a portion of the risks the Bank has identified to date.

## ■ Risk Culture

Corporate culture has a multifaceted nature that is formed collectively by the organizational norm of behavior, sense of value, and/or habits that are built on the thoughts and behavior of each officer and employee of the organization. At the same time, as a financial institution with social responsibility, it is necessary to ensure profitability through a certain level of risk taking to maintain management soundness and continue to fulfill its responsibilities consistently. To this end, it is especially important for the appropriate implementation of the RAF that officers and employees throughout the organization share the risk culture concerning risk recognition, risk taking, and risk management.

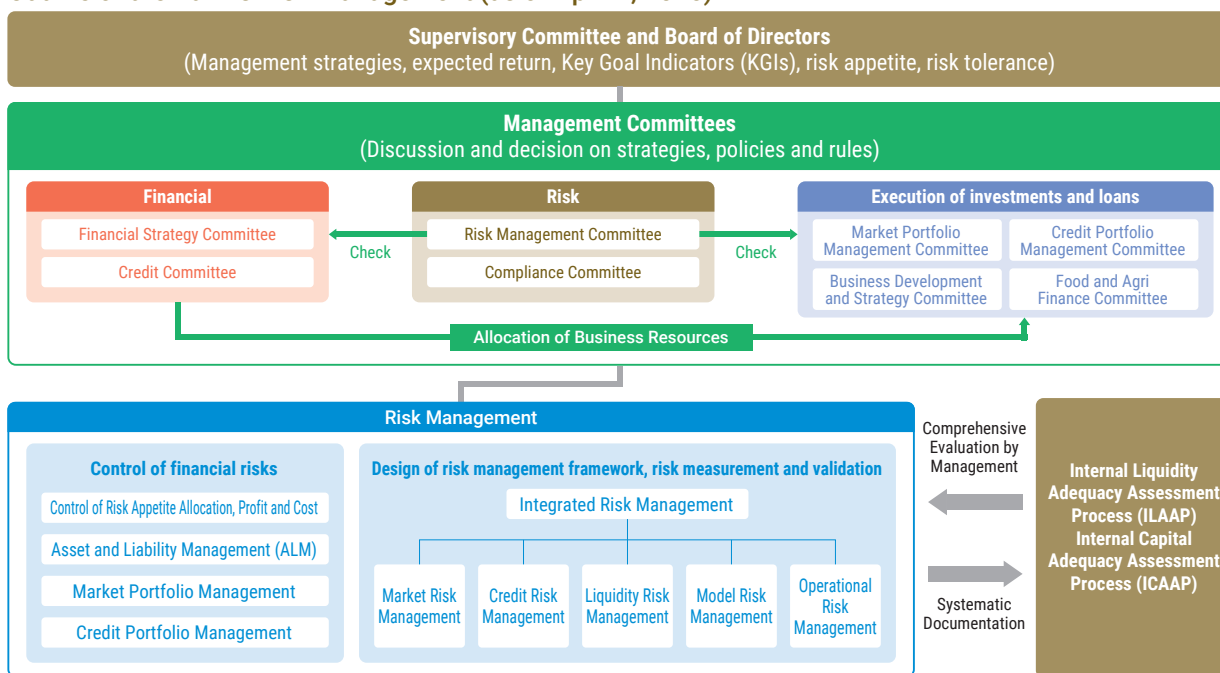
The Bank fosters a sound risk culture throughout the organization by defining and internally disseminating the Code of Conduct, so that all officers and employees of the Bank can always act with a mind-set to establish and maintain trust with diverse stakeholders.

## ■ Risk Management

The Bank conducts risk management with the aim of ensuring the overall stability and sturdiness of operations according to the Bank's risk appetite as specified in the RAF. To ensure its effectiveness, the Bank manages individual risks after assessing their materiality and identifying which to be managed in the context of business operation. The Bank also implements integrated risk management by measuring the overall amount of risk using quantitative methods and comparing it with the Bank's capital resources.

For details, see the "Risk Management" section of the Appendix/Corporate Data of this report.

### Outline of the Bank's Risk Management (as of April 1, 2025)



### Message from the CRO

Risk management carries the important mission of protecting the sustainability of management even under severe stress. From the significant loss recorded in FY2024, the Bank has gained important reflections and lessons in risk management. Starting from FY2025, we are strengthening independence and responsibility of risk management by appointing a Director and Senior Managing Executive Officer as the Chief Risk Officer (CRO). Under the new system, we have built a framework to restrain risk concentration,

strengthened our governance related to risk management, and reinforced our credit risk management. This will enable us to implement preventive risk management, thereby enhancing the operation of our business portfolio. Furthermore, aiming to establish a solid management foundation, we will work on the integration of financial and non-financial risks, including conduct risk, operational resilience, and third-party risk, which are becoming increasingly important.



Director and Senior Managing Executive Officer  
(in charge of Risk Management Unit, Corporate & Shared Services)  
Member of the Board of Directors  
Chief Risk Officer (CRO) (BCP and financial risks)

**YASUTAKE Atsushi**