

East Africa Webinar Series: Risk Based Loan Pricing

July, 2020

East Africa Webinar Series

Episode 1
Thursday, 2 July

12:00 BST | 14:00 EAT

Navigating Credit Risk &
Expected Losses: COVID-19

Episode 2
Thursday, 9 July

12:00 BST | 14:00 EAT

Classification and Stage
Allocation of Financial
Instruments Under IFRS 9

Episode 3
Thursday, 16 July

12:00 BST | 14:00 EAT

Risk Based Loan Pricing

Speakers

Jared Osoro – Director, Research and Policy **Kenya Bankers Association**

Waseem Nisar – Solution Specialist, **Moody's Analytics**

Nash Subedar – Relationship Management, **Moody's Analytics**

Metin Epozdemir, CFA – Risk and Finance, **Moody's Analytics**

Agenda

- 1) The current pricing framework adopted by Financial Institutions in Kenya
- 2) Best practices in Risk Based Loan Pricing
- 3) IFRS 9 impact on the loan pricing methods
- 4) Example of a loan pricing model practical application
- 5) Q&A



COVID-19

Insights for the Banking Industry

WEBINAR

The Essence of Risk Based Pricing

- It is at the core of the broad market-based economic policy thrust in place from the early 1990s.
 - Markets determine prices based on demand and supply dynamics;
 - Regulatory framework ensures that price determination is underpinned by competition dynamics that do not disadvantage consumers:
- Prices reveal market conduct.
 - The setting up of agencies such as Competition Authority of Kenya (CAK) in 2010 is informed by the need to promote and protect “effective competition in markets and preventing misleading market conduct”.
 - The subject of market power and competition generally, and market dominance and competition in particular is at the core of price setting behavior – this was the motivation of a two-phased study by CAK in 2014 on the Kenyan banking industry (see report: <https://www.cak.go.ke/sites/default/files/Banking%20Sector%20Phase%20I%20Market%20Inquiry-min.pdf>)
 - Findings:
 - (a) Kenyan banking industry is generally competitive
 - (b) The widely held concern that high lending rates and high interest spread are as a result of the market power of dominant banks has not been substantiated by this study and is probably misplaced.
 - (c) The regulation of lending rates, or interest rate spread is thus not justified by competitive concerns or the market structure.

Credit Pricing – The Popular Implicit Assumption

- The interest rate capping law of August 2016 that lasted until November 2019:
 - Implicitly assumed that cost is the more binding constraint than access; indeed assumed that the two aspects can be disentangled – *‘manage the cost and access will take care of itself’*,
 - Implicitly embeds as assumption of uniformity of the risks of borrowers,
 - Implicitly assumed away the linkages between the various financial markets:
 - The link between the money market (whose price is regulated through the capping) and the foreign exchange market (freely floating), and the two markets to the equities market.
 - Implicitly ignored the adverse implications on the CBK’s monetary policy conduct, oblivious of the fact that the monetary policy framework is price-based (not quantity based).

The Banking Industry Charter

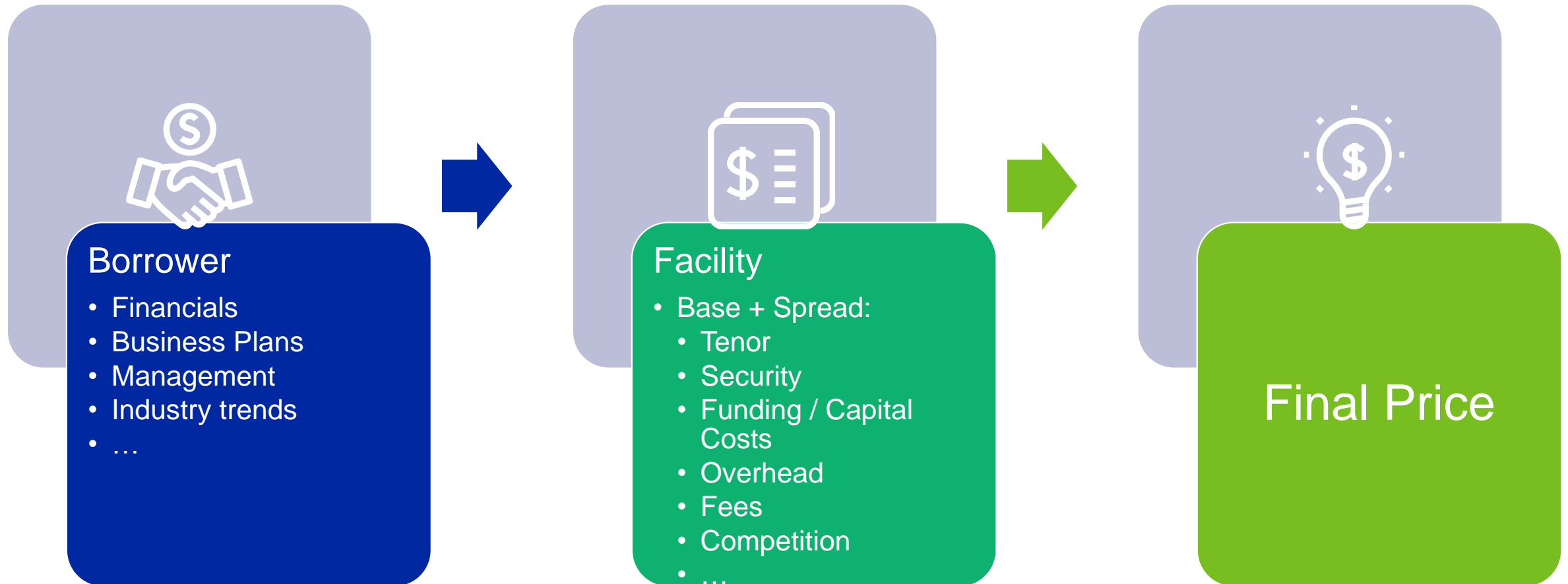
- Effective from 1st September 2018.
- Risk-based pricing is one of the pillars.
- The others are:
 - Adoption of customer-centric business models by banks;
 - Enhanced transparency and information disclosure; (e.g. the APR);
 - Entrenching an ethical culture in banks – doing the right thing.
- The intention of the charter:
 - Promote fairness in lending;
 - Embed transparency in business practices;
 - Promote financial access (enhanced usage);
 - Promote financial literacy.

Perspectives on Risks – Returns Pricing Mechanism in the Kenya

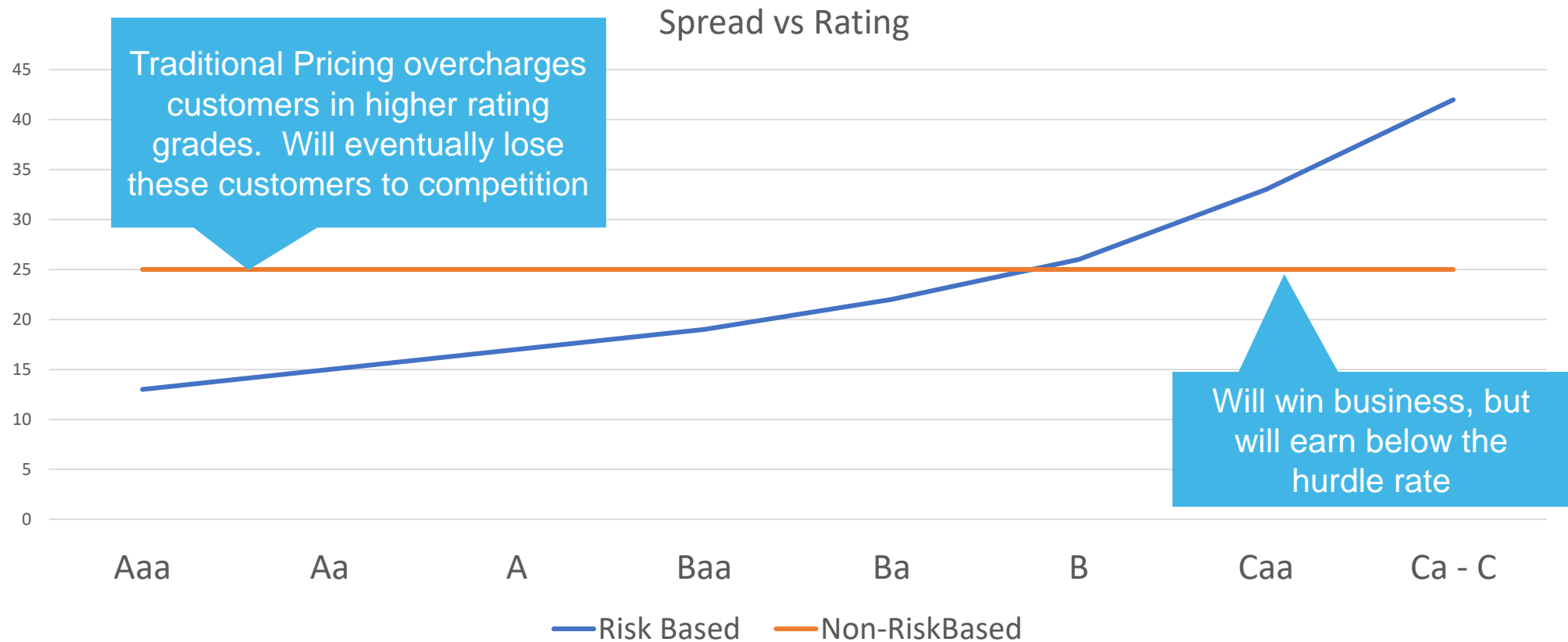
- Conventionally, a positive risk-return relationship is to be expected. However, in Kenya the relationship between bank returns and risk indicate mixed results (based on a KBA study published in 2017 (working Paper No 21):-
<https://www.kba.co.ke/downloads/Working%20Paper%2021.pdf>).
 - When risk is measured as the volatility of returns, it has a positive and significant effect on commercial banks' returns.
 - When risk is measured as the moving average probability of default, risk has a negative though insignificant effect on bank returns.
- It would be expected that sectors that exhibit relatively higher risk profiles attract premiums on the respective lending rates but this doesn't seem to be the case.
- Past returns have a significant and positive effect on the returns that a bank will receive in the current period.
 - This suggests that banks may be relying on previous returns to determine the price of their loans.
- Sectoral credit expansion affected by returns and risk. But, while the pricing effect is not as sensitive to the risk profile of the respective sectors, credit allocation to the sectors is highly risk sensitive.
- If risk assessment leans more to credit allocation than to risk pricing, and credit information sharing (CIS) mechanism leans more to credit decision than credit pricing, then the market needs to start developing systems of transiting to where pricing meaningfully reveals business conduct.

Traditional Credit Pricing Methodology

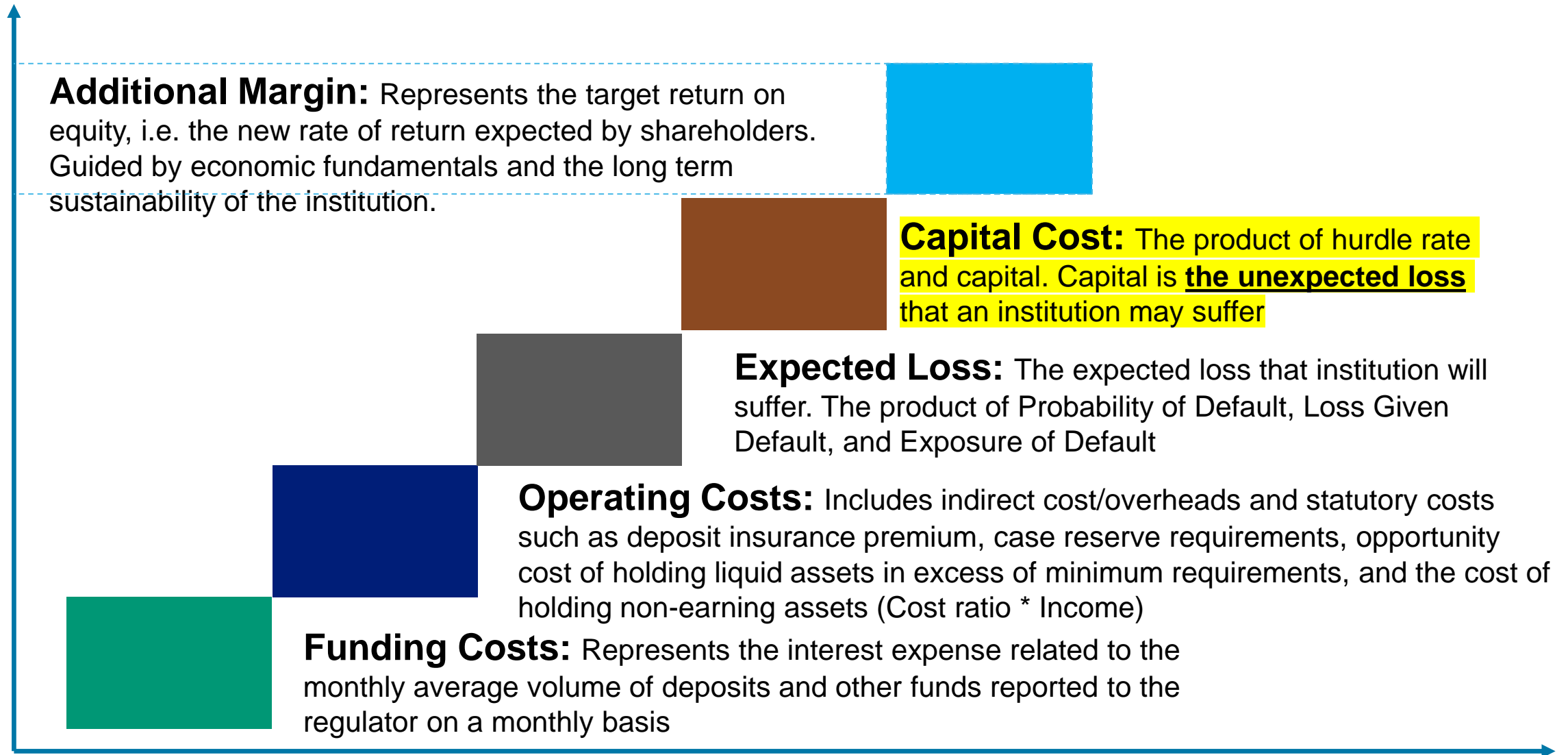
Cost + Profit Approach



Traditional vs Risk Based Credit Pricing

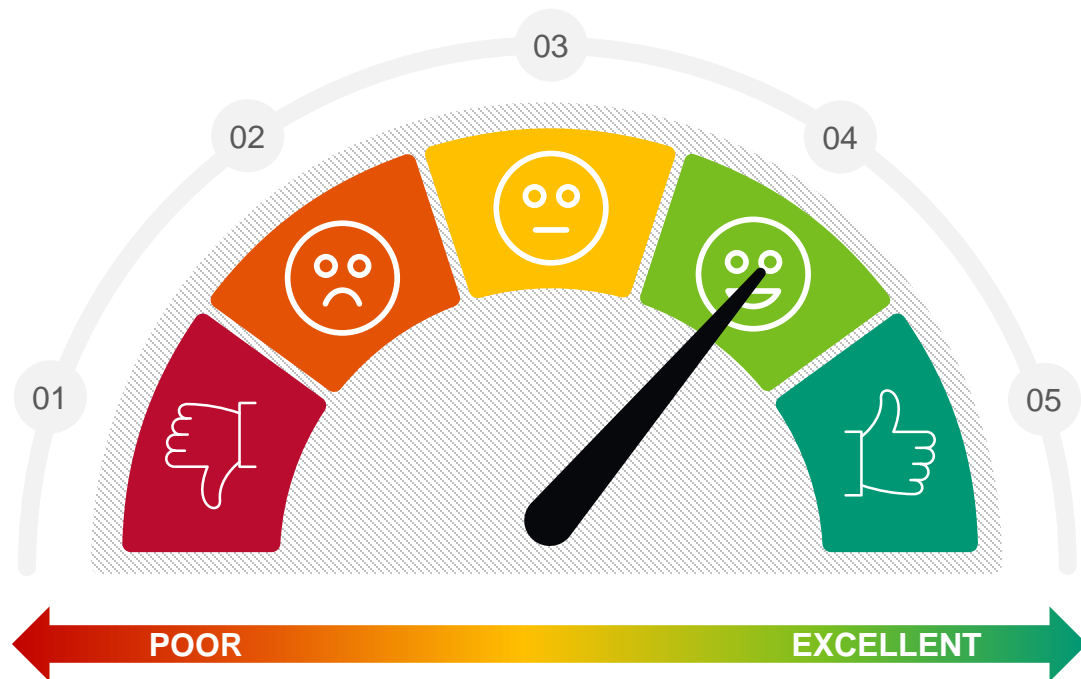


Risk-Based Pricing Accounts for Volatility



Metrics for Performance and Value

Accounting for Risk in Loan Pricing



ROA

Return on Assets

Net Income (after LL provision) / Book Value of Asset
Used historically to measure investment performance, does not account for risk.

ROE

Return on Equity

Net Income (after LL provision) / Equity Capital
Hard to determine it for each loan / business line, does not account for risk.

EVA

Economic Value Added

Expected Return – Cost of Capital
Only excess return over cost of capital is considered; risk is not considered

RORAC

Return on Risk Adjusted Capital

Total Return / Allocated Capital
Compares Gross Return to Risk Capital. Can be used to choose between investments with similar return / cost allocation, but different risk profile.

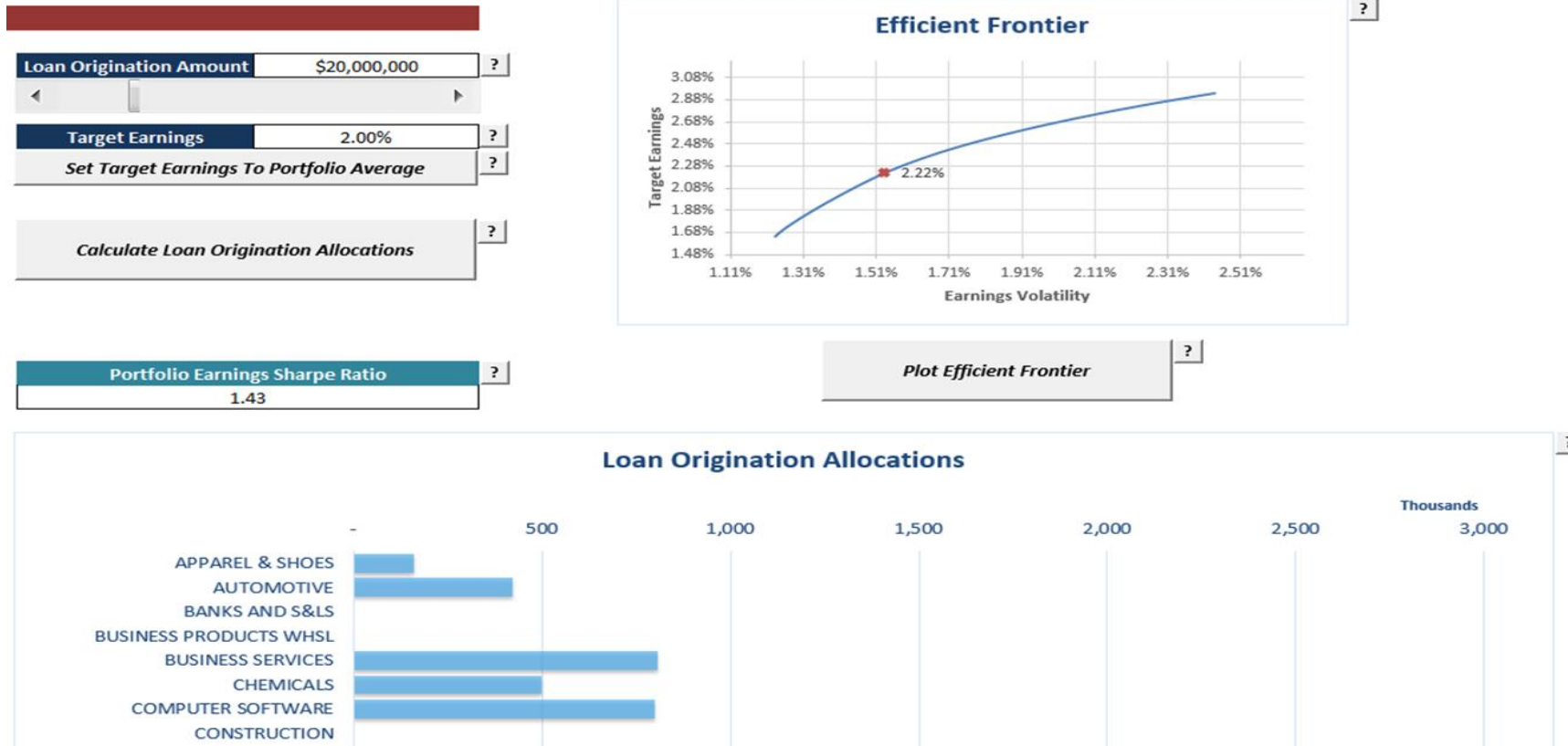
RAROC

Risk Adjusted Return on Capital

Total Return – EL – FTP – Op. Cost / Allocated Capital
Most widely used measure, supports risk-return trade-off and bank-level portfolio optimization. Used to choose between alternative investments as it considers both risk and return

Impact of IFRS 9 on Loan Pricing

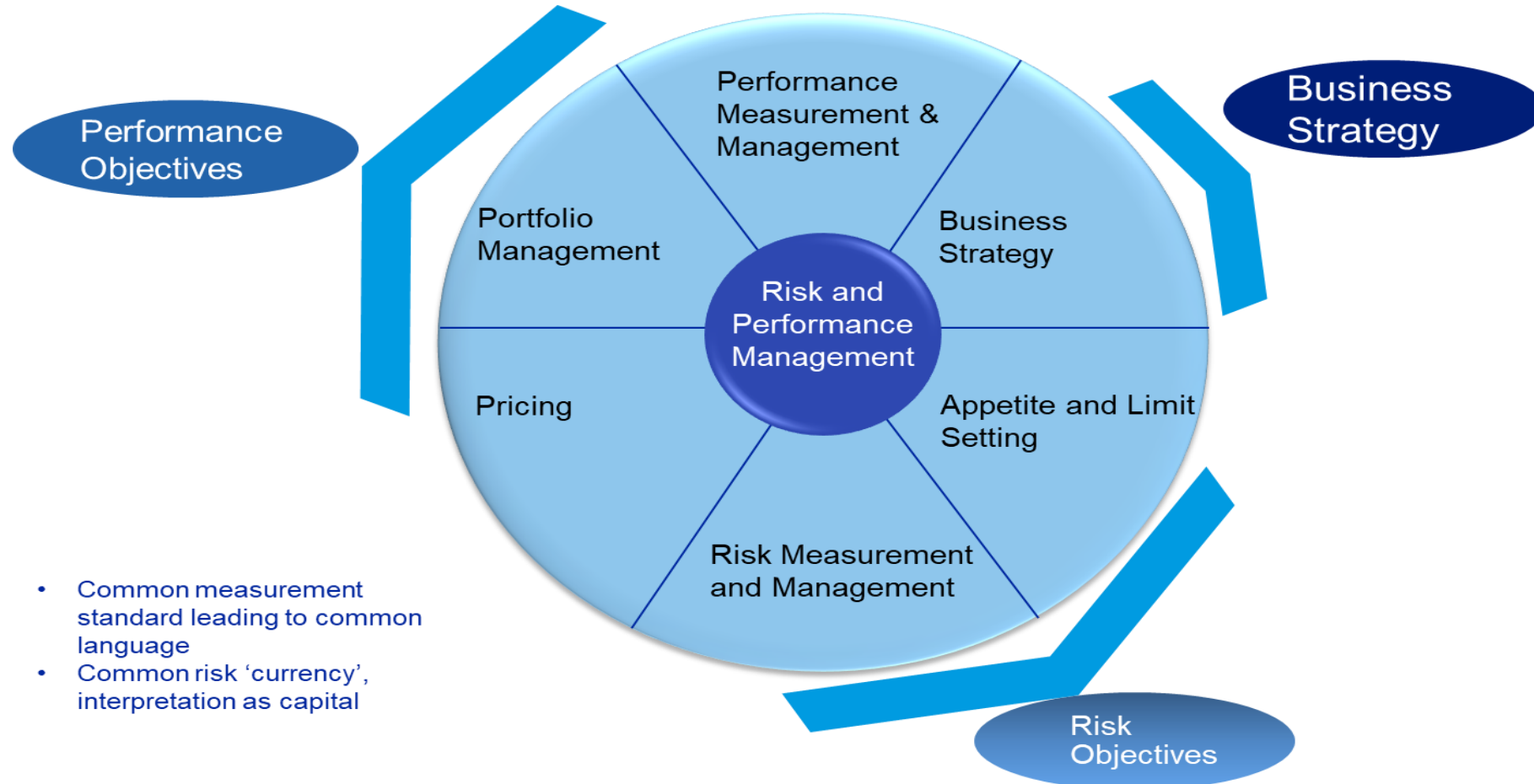
Risk-Reward Trade off



- » Expected Losses/Returns only tell half the story
- » Risk in terms of variance or volatility of returns is a key parameter in asset allocation and pricing decisions
- » Introduction of IFRS9 brings returns volatility in center stage
- » Stage allocation criteria, the state of the credit cycle and the macroeconomic outlook are all expected to impact on the losses volatility

Best Practice Requires Consistent Measurements

Essential to Manage Strategy, Performance and Risk



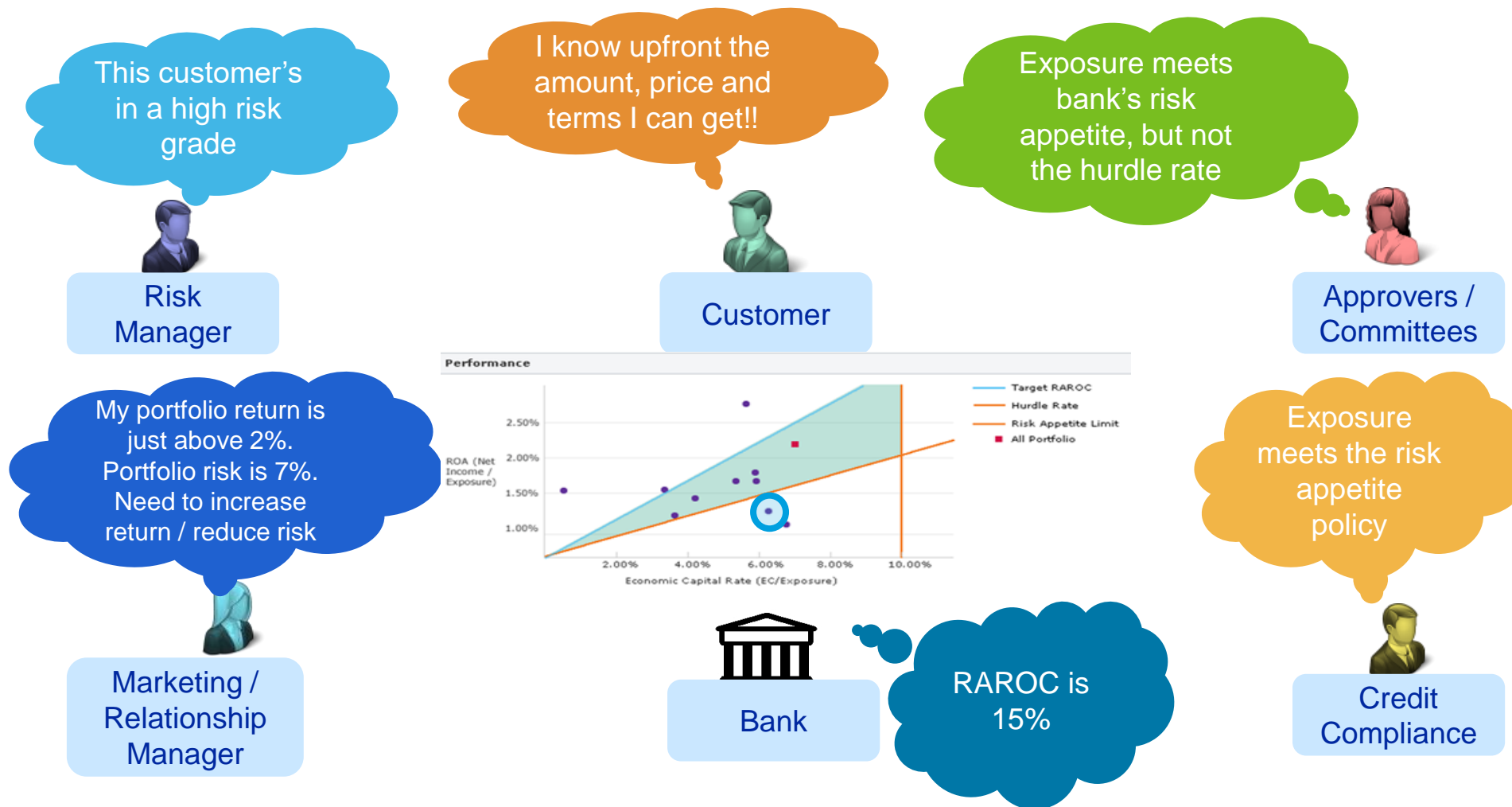
Pieces of the Puzzle

Different requirements of the customer and bank stakeholders



Risk Based Pricing Framework

Inform all the stakeholders well in time



Key metrics Needed for Pricing

Rating and Probability of Default

- Centralized repository of credit risk rating information
- Ability to capture both qualitative and quantitative information
- Embedded PD Models



Loss Given Default (LGD)

- Calculate Basel LGD using Collateral eligibility and regulatory haircuts
- Flexibility to use internal models



Facility and Collateral Structuring

- Structure facilities with complex limit trees
- Add and assign collaterals to facilities
- Allocate collaterals optimally



EAD Calculation

- Import exposures from core systems periodically
- Apply Basel CCFs for to undrawn and off balance sheet facilities
- Calculate EAD

Expected Loss

- Calculate Expected Loss as a function of PD, LGD and EAD



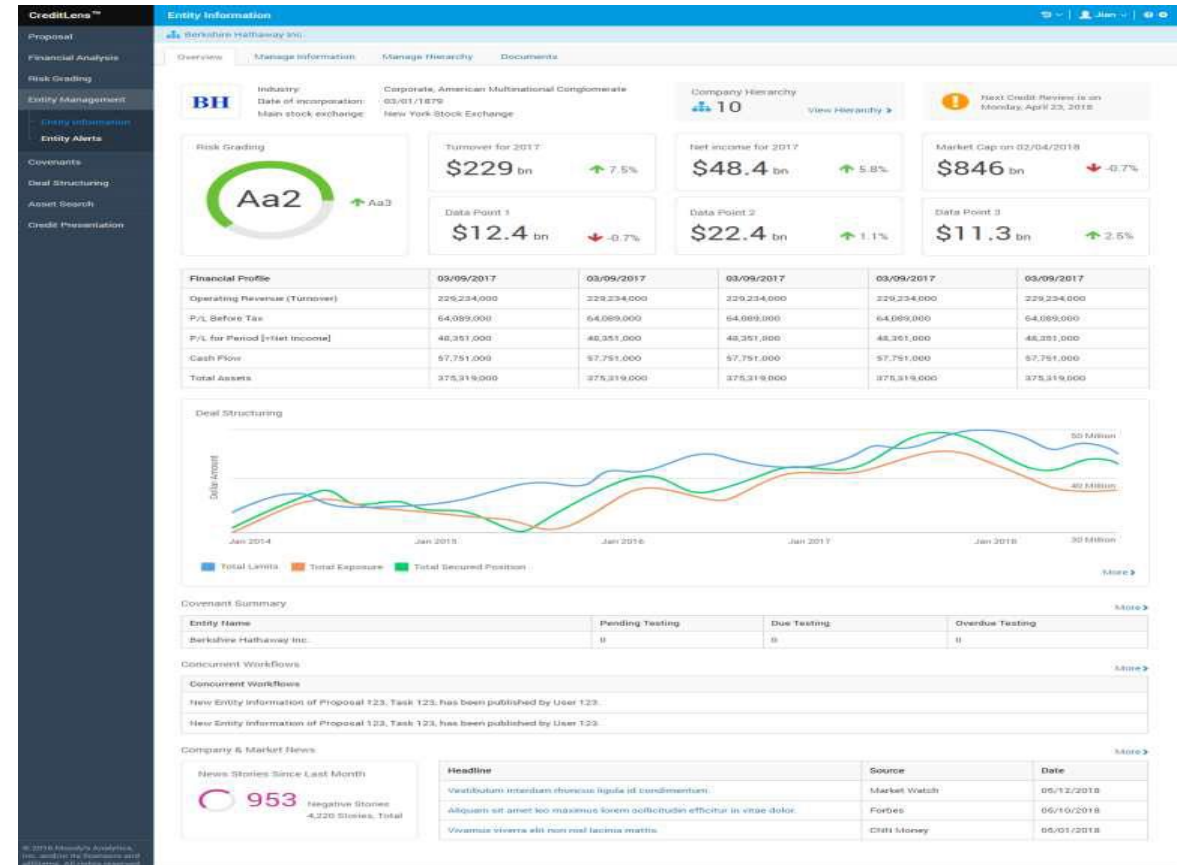
Unexpected Loss / Capital

- Calculate Basel IRB Capital Charge using the ASRF formula OR
- Economic Capital

Risk Grading

In-depth Assessment of Borrower Health

- » Hierarchical grade distribution
- » Configurable automated model selection
- » Support for multiple scenario's including what-if for stress assessment
- » Extended override classifications
- » Optional business process management control
- » Platform for rapid deployment
- » Pre-built Scorecards or Bank-Specific Internal Rating Models
- » RiskCalc based Scorecard
- » Expert Judgement Scorecards
- » Bank designed or 3rd Party scorecards



Facility and Collateral Structuring

» Facility Structuring

- Create Facilities and Facility Trees
- Import Facilities from Core Banking or other systems
- Import exposures from core banking and booking systems

» Collateral Management

- Create or import collaterals
- N to N Allocation of collaterals using pro-rata allocation or an optimized algorithm

The screenshot shows the 'Facility Summary' page for 'ABC Company'. It features a sidebar with navigation options like Configuration, Administration, Alerts, Proposal, Documents, Reports, Entity Search, Entity Management, Financial Analysis, Risk Grading, LGD Risk Analysis, Asset Search, Deal Structuring, Facility Summary (selected), Risk Mitigants Summary, Credit Presentation, Covenants & Conditions, and Tracking & Testing. The main content area has a 'Summary' section with a table showing entity details and a 'Facility / Product' section with a table listing facilities.

Entity	Currency	Position	Rating	Total Aggregated Limit	Total Utilization	Utilization Level
ABC Company	KWD Kuwaiti Dinar	Proposed Position	-	4,500	3,763	83.62%
		Approved Position	-	-	0	-
		Variation		4,500	0	83.62%

ID	Type	Status	Primary Borro...	Curren...	Proposed Limit	Approved Limit	Variation	Utilization	Expected M...
6	Multi-Option Facilit...	New	13 - ABC Compa...	KWD Ku...	4,500	-	4,500	3,763	8/31/2018
7	Letter of Credit	New	13 - ABC Compa...	KWD Ku...	2,000	-	2,000	-	8/31/2018

The screenshot shows the 'Risk Mitigants Summary' page for 'Veronica BVT Co Ltd'. It includes a 'Back to Risk Mitigants Summary' link and tabs for 'Asset' and 'Collateral'. The 'Collateral' tab is active, showing 'Basic Details & Provider' and 'Availability' sections. A table lists collateral details with a 'Calculate Coverage Ratio' button.

Primary Borrower *	Product ID *	Product Type	Currency	Proposed Limit	Allocation Percentag
103 - Veronica BVT C...	87	Overdraft	GBP British Pound	6,500,000	100.00%

Loss Given Default Analysis

- » LGD analysis natively integrated with deal structuring functionality
- » Provides a configurable framework to create products, collateral and guarantees
- » Leverages Model Authoring Platform to enable easier configuration of client LGD models
- » Incorporates calculation logic for system run calculations
- » Builds business rules for field validations

Entity	Currency		PD	Limit	
Farmer Holding First Incorporation	USD US Dollar	Proposed Position	0.16	100,000.00	
		Approved Position	-	0.00	
		Variation		100,000.00	

Select LGD category to view result: * Risk Assessment Calculate !

<input type="checkbox"/>		Product ID	Product Type	Product Name	Currency	Proposed Limit	ModelId	EAD	Proposed LGD	Approved LGD	Proposed LGD Grade
<input type="checkbox"/>	Extra Input	8	Term Loan	-	USD US D...	100,000.00	FIRB	100,000	45.00%	-	F

EAD Calculation

Based on the imported utilization of existing limits and the expected utilization level of proposed facilities

Product Summary

admin

Mullinix Automotive LLC

Display Currency

Entity	Currency		Rating	Total Aggregated Limit	Total Utilization	Utilization Level
Mullinix Automotive L...	USD US Dollar	Proposed Position	A3	1,500,000.00	1,000,000.00	66.67%
		Approved Position	-	1,500,000.00	1,000,000.00	66.67%
		Variation		0.00	0.00	0.00%

Facility / Product

Approve

<input type="checkbox"/>	Product ID	Product Type	Transaction Type	Primary Borro...	Curren...	Proposed Limit	Approved Limit	Variation	Utilization	Expected M...
<input type="checkbox"/>	4	FiveYearTermL...	New	62 - Mullinix Aut...	USD US ...	1,500,000.00	1,500,000.00	0.00	1,000,000.00	11/22/2022

Expected Loss and Capital Calculation

- » Expected Loss is a function of PD, LGD and EAD
- » For capital computation, the Basel Capital Formula can be applied

Top 10 Capital Names (Expected Loss) Options	
Name	Capital Amount
GENERAL_MOTORS_CORP	7,853,444,323
CHARTER_COMMUNICATIONS_INC	4,474,085,497
FORD_MOTOR_CO	2,514,272,715
TENET_HEALTHCARE_CORP	880,771,367
INTELSAT	723,362,057
ABITIBI_CONSOLIDATED_INC	568,009,064
EL_PASO_CORP	547,190,365
STANDARD_PACIFIC_CORP	425,259,639
HOVNANIAN_ENTRPRS_INC__CL_A	421,485,737
BEAZER_HOMES_USA_INC	381,208,089

Credit Risk	
▼ Show Formula	
Correlation:	$R = R_{const} \text{ if } R_{const} \text{ not null}$ or $R = R_{PARAM1} * (1 - \exp(R_{EXP} * PD)) / (1 - \exp(R_{EXP}))$ $+ R_{PARAM2} * [1 - (1 - \exp(R_{EXP} * PD)) / (1 - \exp(R_{EXP}))]$ $- R_{FIRM_SIZE_ADJ_PARAM} * (1 - (S - MinAnnualSales) / (MaxAnnualSales - MinAnnualSales))$
R Formula:	$R = 0.03 * (1 - \exp(-35 * PD)) / (1 - \exp(-35))$ $+ 0.16 * [1 - (1 - \exp(-35 * PD)) / (1 - \exp(-35))]$
Maturity Adjustment:	$B = 0 \text{ if not use Maturity adjustment}$ or $B = (B_{PARAM1} - B_{PARAM2} * \ln(PD)) ^ 2$
B Formula:	
Capital Requirement:	$K = \{LGD * N[(G(PD) + R ^ 0.5 * G(INV_CUMUL_PARAM)) / ((1 - R) ^ 0.5) - PD * LGD] * (1 + (M - AVG_MATURITY_ADJ) * B)) / (1 - B_{PARAM3} * B)$
K Formula:	$K = LGD * N[(G(PD) + R ^ 0.5 * G(0.99900)) / ((1 - R) ^ 0.5) - PD * LGD]$

Risk Adjusted Performance Management

Achievable at Origination

CreditLens™

Configuration

Administration

Alerts

Proposal

Business Insights

RAROC

Documents

Entity Search

Entity Management

Audit Trail

Financial Analysis

Risk Grading

LGD Risk Analysis

Credit Presentation

RAROC

Revenue: 290,500.00

Expected Loss: 36,114.75

Credit Risk Adjusted Capital: 677,811.09

Total Risk Adjusted Capital: 721,386.09

Aggregated RAROC: 31.87

Required Return For RAROC: 108,207.91

Treasury Funding Cost: 24,500

Risk Adjusted Return: 229,885.25

Operational Risk Capital: 43,575.00

Surplus: 121,677.34

The main elements in the calculation of the RAROC framework are:

1. Revenues
2. Credit risk (Expected Loss)
3. Cost of funds
4. Operating costs
5. Capital charge
6. Concentration premium

The expected risk adjusted return on capital and the hurdle RAROC are shown at a facility level here

Questions and Answers

EAST AFRICA WEBINAR SERIES: RISK BASED LOAN PRICING

Thank You

EAST AFRICA WEBINAR SERIES: RISK BASED LOAN PRICING

© 2020 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND/OR ITS CREDIT RATINGS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S INVESTORS SERVICE DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S INVESTORS SERVICE CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and Moody's investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.