

Risk Management System for Investment Risks

NBF and the asset management company establish following system concerning NBF's asset management in order to avoid and minimize risks concerning investment management. NBF and the asset management company are committed to avoid occurrence of risk concerning investment in NBF's investment securities and NBF's investment corporation bonds as well as to take action when such risk occurs to the greatest extent possible, however there is no guarantee that such measures will result in sufficient outcome.

(1) NBF

NBF is operated by the Board of Directors composed of one Executive Director and three Supervisory Directors. Board of Directors meetings are held at least once every three months, and as needed, resolving approval matters stipulated in laws and regulations as well as NBF's Rules of Board of Directors and reporting the execution of duties, etc.

This will enable the Supervisory Directors, who are independent from the asset management company and its related parties, to obtain appropriate information and to supervise the execution of duties by the Executive Director. At the same time based on such reporting, NBF will confirm whether there is no risk of conflict of interest transaction for transactions with interested parties, etc. of the asset management company and strive to manage risk related to conflict of interest, etc. In addition, in the case when NBF will conduct certain major transactions out of acquisition, disposition or lease of management real estate with interested parties etc. of the asset management company, obtaining the consent of NBF based on the approval by NBF's Board of Directors in advance to conclusion of an agreement for such transaction (Articles 201-2 of Investment Trusts Act) is required. This will enable the Board of Directors to confirm whether there is no risk of conflict of interest transaction before concluding an agreement for transactions with interested parties, etc. and strive to manage risk related to conflict of interest, etc.

In addition, the Supervisory Directors can request reports concerning status of NBF's duties and property from the Executive Director, general administrative service provider, asset management company and asset custodian as needed and can conduct necessary investigation (Article 111 Paragraph 2 of Investment Trusts Act).

Moreover, NBF establishes rules for inside persons transactions and prohibits transactions of NBF's investment units and investment corporation bonds by officers in order to prevent insider trading.

(2) Asset Management Company

The asset management company develops an effective risk management system by conducting multi-layered considerations from several different viewpoints and also develops a system that can respond to issues of compliance.

(i) Risk Management by Compliance with Asset Management Guidelines

The asset management company formulates management policies and annual management plans as policies and plans to be compiled with when managing NBF's assets. In addition, it establishes the Asset Management Guidelines as a standard to be compiled with.

The Asset Management Guidelines provide asset management, acquisition and disposition policies, fund raising and management policies, distribution policies, etc. and through compliance, strive to manage risk. For the acquisition and management of individual assets, fund raising and management, etc., the Investment Review Meeting, Compliance Committee and Executive Board consider whether risks are addressed in compliance with such standards, policies, etc.

(ii) Efforts Concerning Transactions with Risk of Conflict of Interest

The asset management company is always aware of the accountability to NBF and its unitholders regarding transactions with risk of conflict of interest between NBF and the asset management company or the interested party, etc. when conducting transactions related to asset management and prevents unjustified and unfair transactions in accordance with laws and regulations and its internal rules.

Specifically, it defines the range of interested parties, etc. broader than laws and regulations based on the "Rules on Transactions with Interested Parties, etc." and appropriately manages risk of conflict of interest by establishing decision-making procedures concerning transactions with interest parties and the range and standard of targeted transactions.

In addition, certain transactions, etc. stipulated in the Rules of the Compliance Committee such as the acquisition of real estate and other assets with interested parties, etc. as a counterparty are matters to be discussed at or matters to be reported to the Compliance Committee, and conformation will be made in relation to compliance including whether there are risks for conflict of interest transactions.

(iii) Efforts Concerning Compliance

Formulated as an execution plan every year based on the Compliance Rules and Compliance Manual through the Compliance Program. The state of achievement is confirmed and issues are understood. The Compliance Program is compiled by the Compliance Officer at the beginning of each fiscal period after consulting with each group and each team, and following deliberation by the Compliance Committee, it is approved by the Board of Directors of the asset management company. In addition, the Compliance Officer will receive reports from each group and each team on the progress of the Compliance Program once every six months and report on it to the Compliance Committee and the Board of Directors of the asset management company.

(iv) Efforts Concerning Risk Management

Basic policies of risk management and risk items to be managed are stipulated in risk management rules and at the Risk Management Meeting held regularly once every three months or more where it is monitored whether risk identification, risk assessment and risk control based on the risk management guidelines are appropriately executed. The summary of the Risk Management Meeting will be reported to the Board of Directors of the asset management company and NBF's Board of Directors as needed.

(v) Execution of Internal Audit

The Compliance Officer will, as a person responsible for internal audit duties, will execute regular internal audits based on internal audit rules and internal audit regulations, prepare internal audit reports and report to the CEO and Board of Directors of the asset management company. Upon execution of internal audit, in order to reinforce and complement internal audit functions, internal audit functions can be entrusted to outside third parties in the case when it is approved by the Board of Directors of the asset management company approves.

(vi) Prevention of Insider Trading

To prevent execution of insider trading, regulations for inside persons transactions and the Compliance Manual stipulate the prohibition of transactions of NBF's investment units and investment corporation bonds by directors and employees.