Risk Management Systems

While business opportunities are increasing with financial deregulation, globalization and the development of financial technologies, the risks attendant on financial services are becoming more complex and diverse. Against this backdrop, the Bank is strengthening its risk management systems, a priority issue for management, with the goal of establishing a sound management foundation and ensuring stable revenues.

Integrated Risk Management: The Risk Management Rules and Regulations were established pursuant to our Basic Policy on Risk Management. Additionally, the Corporate Risk Management & Compliance Division is responsible for handling risk management across the Bank's entire operations. We classify the risk inherent in financial operations into four categories—credit, market, liquidity and operational risk—and tailor our measures to manage by each risk category. Quantifiable risk is kept within certain parameters. To ensure that an appropriate balance is struck between earnings and risk, risk is quantified using a statistical approach employing the VaR (Value at Risk) method, with economic capital allocated to cover potential risk. Earnings are measured and valued on a risk-adjusted basis. Risks that are difficult to quantify are subject to precautionary measures to minimize their realization.

Credit Risk Management: Credit risk is ranked as the top priority risk category, and we are working to exert even tighter control over the Bank's credit risk. This is done in accordance with the Bank's Credit Risk Management Policy and Credit Policy. Strict standards are applied to the screening of each individual case, and in this way, we are working hard to maintain the soundness of our assets. In our loan portfolio, we also try to diversify risk and ensure there is no concentration of any particular industrial sector or customer. We do this using a system of credit risk quantification and sector-based portfolio management, based on our credit rating system. We also carry out asset self-assessment and constantly monitor the procedures and based on the outcomes, we audit the appropriateness of write-offs and provisions for loan-loss reserves.

*In addition to the above, we rigorously manage market, liquidity, operational and other risks through a cross-checking system.

The ALM System: The ALM committee, consisting of top management members, meets monthly to decide on asset and liability management and procurement policy based on projections of economic trends and capital market interest rates. The committee also quantifies risk in areas such as deposits and loans, bonds, stocks and investment trusts using the VaR (Value at Risk) method. It also conducts strategic management, such as determining key policies on market risk and by other means. This is done after gaps generated by the difference in contract terms for asset and liability management and procurement are analyzed to ascertain the relationship between risk and profit.

The Internal Audit System: The Internal Audit Division, which is directly under management control, carries out internal audits as an independent entity that has no involvement in banking operations. The division undertakes audits of the head office divisions, branches and subsidiaries in line with our Basic Policy on Internal Audits. This policy is determined for each fiscal year at a meeting of the Board of Directors. Audit findings and problems are reported directly to top management by internal audit division staff members at the monthly Board of Directors' Meeting and at other opportunities. The Internal Audit Division also issues instructions for implementing remedial measures.

Risk Management Structure