

Risk Management Systems

As the risks attendant on financial services grow more diverse and complex, management of such risks is becoming increasingly important. Against this backdrop, the Bank is strengthening its risk management systems, one of the key priority issues for management, with the goal of establishing a sound management foundation and ensuring stable revenues.

Integrated Risk Management: In order to properly manage the risks associated with banking operations, the Bank quantifies such risks using a uniform standard employing VaR (Value at Risk) and other methods and compares measured risks with management resilience. In more concrete terms, we adequately control risks by using the method of capital allocation to each risk category – credit, market, and operational risks – so that each business division can contain the risks within the scope of the allocated capital (risk limits).

Risks that are difficult to quantify using the VaR method are subject to periodic stress tests in order to determine their possible impact on equity capital, thus ensuring capital sufficiency.

The ALM System: The ALM committee, consisting of top management members, meets monthly to perform integrated management of all of the Bank’s assets and liabilities, including off-balance-sheet transactions, based on projections of economic trends and capital market interest rates.

The committee also quantifies risks in areas such as deposits and loans, bonds, stocks, and investment trusts using the VaR method, and discusses and determines important risk management issues that are essential to maximize and stabilize revenues, as well as matters concerning integrated risks. This is conducted based on analysis of gaps generated by differences in contract terms for assets and liabilities, and on analysis of revenue forecasts.

Credit Risk Management: The Bank is strengthening credit risk management in accordance with its “Credit Risk Management Policy” and “Credit Policy.” Each individual case is screened extensively in terms of its public aspects, safety, profitability, and growth potential, and we are working hard to maintain the soundness of our assets by applying strict standards after investigating the realities at relevant customers.

We also ensure that lending portfolio risks are dispersed using a system of “credit risk quantification” and “sector-based portfolio management” based on our credit rating system, so that we can earn a level of income commensurate with credit cost.

Market Risk Management: To properly manage market risks, the ALM committee sets up various limits, such as risk limits, position limits, and loss limits, for each business division and risk category. The committee also quantifies market risks using several risk measurement methods and properly controls risks within permissible limits, thereby ensuring a stable flow of income.

Liquidity Risk Management: Other than maintaining the soundness of its assets to prevent tight finances, the Bank has developed a liquidity risk management system by setting forth the “Liquidity Risk Management Policy,” “Liquidity Risk Management Regulations,” etc. in an effort to ensure market liquidity and stabilize cash flows.

Operational Risk Management: Given that operational risks are so extensive, varied, and diverse that they concern every single operation and section and thus must be avoided as much as possible in business management, the Bank has developed an organizational setup and system that properly manage such risks, in order to prevent them from being actualized and minimize their impact should such risks occur.

Crisis Management: To ensure that the minimum operations necessary to maintain the financial system’s functions may be continued without interruption and, should they be interrupted due to large-scale disasters and other contingencies, to ensure that they are resumed promptly, the Bank has established its “Business Continuity Plan” and strives to enhance effectiveness of the business continuity management system by carrying out various kinds of drills.

Adequacy and Effectiveness of Internal Control: Independent from all other business divisions, the Internal Audit Division conducts verification and assessment in accordance with the “Internal Audit Policy,” which provides the basic policy, etc. concerning the internal auditing system, in order to make suggestions to those audited on improvement of problems that may have been discovered, and reports audit findings, etc. to the Board of Directors, Executive Committee, and auditors on a monthly basis.

