Risk Management

The Bank regards high-quality risk management as a management priority. We are strengthening and upgrading our risk management mechanisms to build up a sounder operating basis and enable stable revenue generation.

General Risk Management

We have created the Management Administration Department to cover risk management across the whole Bank. We classify risk into four categories: credit, market, liquidity and operational risk. We tailor our measures to 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 the VaR (Value at Risk) formula, with allocation of risk-adjusted capital equivalent amounts to cover potential risk. Revenues are measured and valued on a risk-adjusted basis, and risks that are difficult to quantify are subject to precautionary measures to forestall their emergence.

Credit Risk Management

For significant risk, we have strengthened our management based on our credit risk management policy and Credit Policy. We subject loans to stringent inspections on a case-by-case basis and work to maintain the soundness of our assets. In our loan portfolio, we also try to spread risk and ensure there is no bias toward any particular sector or customer, through our systems of credit risk quantification and portfolio management by sector and underpinned by our credit rating system. We make provisions for possible loan losses based on an own-asset assessment and write off bad-debts as deemed necessary.

* *In addition to the above measures, we rigorously manage market, liquidity and operational risk through establishment of a supervisory office and a system of cross-checking.*

The ALM System

The ALM committee, consisting of top management members, meets monthly to decide on fund investment and procurement policy based on projections of economic trends and capital market interest rates. It also quantifies risk in areas such as deposits and loans, bonds, shares and investment trusts using the VaR (Value at Risk) formula, and conducts strategic management through measures such as deciding important policy on market risk after analysis of gaps generated by the difference in contract periods for fund investment and procurement, to understand the relationship between risk and profit.

Internal Audit System

The Audit Department, directly under the control of management, carries out internal inspections as an independent entity without involvement in banking operations. We have also established an internal audit mechanism which performs audits into banking departments without any restrictions on its conduct. Audit findings and problems discovered by auditors are reported directly to top management by auditors.

Risk Management Structure