

# Risk Management Systems

With the liberalization and globalization of finance and advances in information technology, the risks attendant on financial services are growing more diverse and complex. 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 against 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 testing 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 conduct 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 maximizing and stabilizing 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," which outlines its basic policy on management of credit risks, and its "Credit Policy," which serves as its guidelines for credit practices. Each case is screened extensively, taking into account the purpose of the loan and sources of funds for repayment from the perspective of public aspects, safety, profitability, and growth potential, and we are working hard to maintain and improve the soundness of our assets by applying strict standards after investigating the actual circumstances of 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:** Besides maintaining the soundness of its assets in order to prevent tight finances, the Bank has developed a liquidity risk management system by formulating and implementing 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 far 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 becoming actualized and to minimize their impacts should any such risks occur.

**Crisis Management:** To ensure that the minimum operations necessary for maintaining the financial system's functions can continue without interruption and, should they be interrupted due to large-scale disasters, IT system failures or 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 auditees on remedying of issues that may have been identified, and reports audit findings, etc. to the Board of Directors, Executive Committee, and auditors on a monthly basis.

