

Risk Management

Against the background of increasing complexity and diversity in the risks attendant on financial operations, we constantly work to further strengthen the Bank's risk management system so as to ensure financial soundness and make possible solid earnings on a long-term basis.

Integrated Risk Management

The Management Administration Department is responsible for handling risk management across the Bank's entire operations. We classify risk inherent in financial operations into four categories: credit, market, liquidity and operational risk. We tailor our measures to each risk category, and 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 allocation of economic capital to cover potential risk. Earnings are measured and valued on a risk-adjusted basis, and risks that are difficult to quantify are subject to precautionary measures to minimize their realization.

Credit Risk Management

Credit risk is positioned as the top-priority risk category, and we work to exert even more strict control over the Bank's credit risk in accordance with the stipulations of the Bank's credit risk management policy and credit policy. We apply strict standards to the screening of each individual case, and cases that exceed a certain specified standard are screened again by specialized staff in our Credit Examination Department. In this way, we are working to maintain the soundness of our assets.

In our loan portfolio, we also try to diversify risk and ensure there is no concentration on any particular industrial sector or customer, through our systems of credit risk quantification and portfolio management by sector, underpinned by our credit rating system. We also carry out asset self-assessment and constantly

monitor asset self-assessment procedures, enabling us to evaluate the correctness of the Bank's policies on write-offs and on making provisions to loan-loss reserves.

*In addition to the above measures, we rigorously manage market liquidity and operational risk through a system that facilitates 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, stocks and investment trusts using the VaR (Value at Risk) method, 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 fund raising, to ascertain the relationship between risk and profit.

Internal Audit System

The Audit Department, directly under the control of management, carries out internal audits as an independent entity without involvement in banking operations. The Audit Department undertakes audits of the head office departments, branches and subsidiaries in line with our Basic Policy on Internal Audits, which is decided on for each fiscal year at a meeting of the Board of Directors. Audit findings and problems are reported directly to the top management by audit department staff members. In addition, the Audit Department is authorized to give instructions for implementing remedial measures.

