Risk Management

Basic perspective

The risks that banks in Japan confronted are becoming increasingly diversified and complicated as financial liberalization and internationalization progress and financial and information technology advances. Under such circumstances, in order to improve the corporate value while ensuring soundness and stability of management, it is necessary that we appropriately manage and control risks according to the characteristics of operations and risks.

The Bank understands adequate risk management as one of the most important managerial tasks. The Board of Directors has established the "Basic Policy on Risk Management" and strengthens and improves the risk management system, including the risk management following this basic policy.

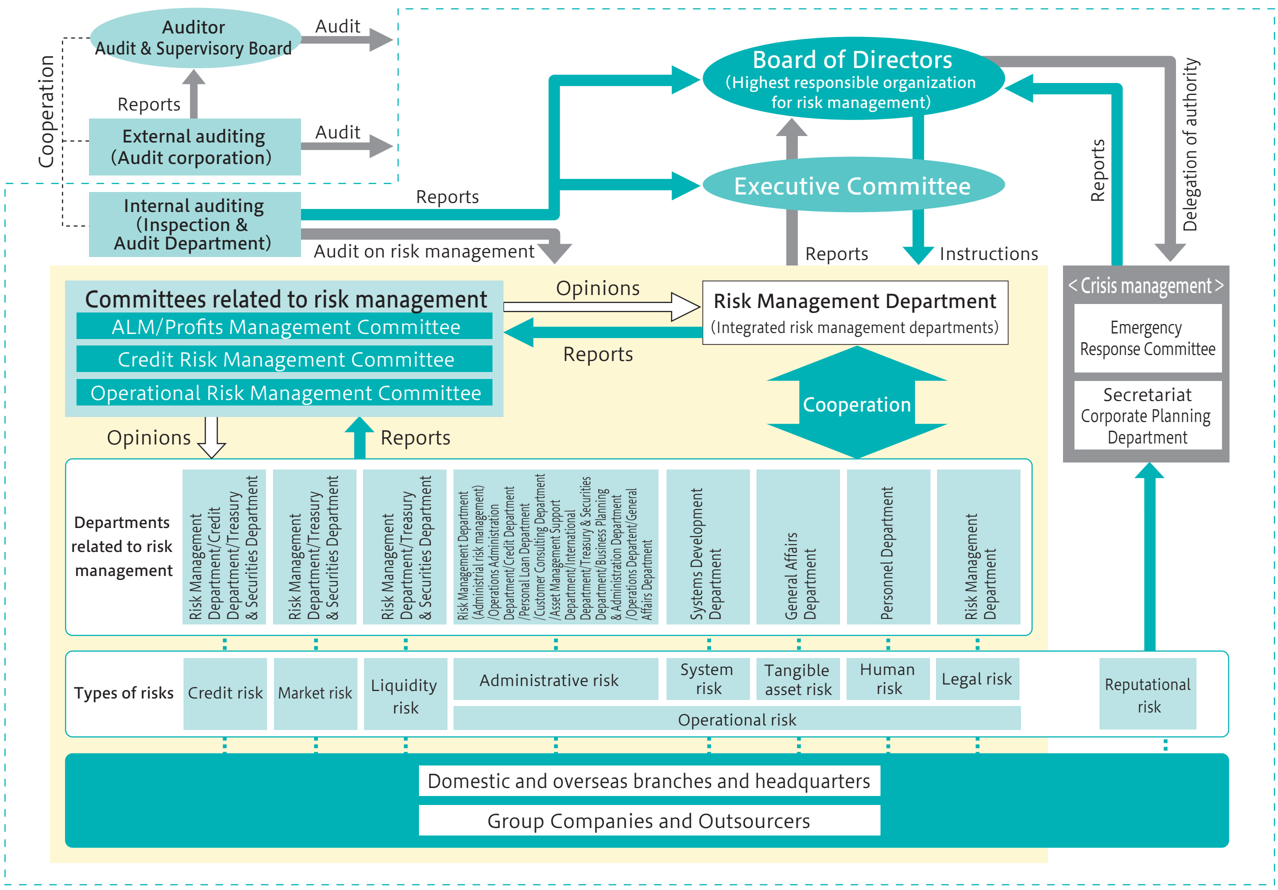
Overview of risk management system

The Board of Directors fully recognizes the importance of risk management, determines the risk management policy based on the Bank's management policy, etc., and strives to foster a corporate culture that places emphasis on risk management.

In addition, the Risk Management Department has been established as an integrated risk management organization for the entire bank, which comprehensively grasps and manages the status of various risks including risk measurement results from a cross-sectional perspective.

The Risk Management Department and various risk management-related departments work together concerning risk situations and challenges and report the results to the Executive Committee and the Board of Directors based on discussions and reviews by the ALM/Profits Management Committee, the Credit Risk Management Committee, and the Operational Risk Management Committee.

Organizational framework of risk management



Integrated risk management

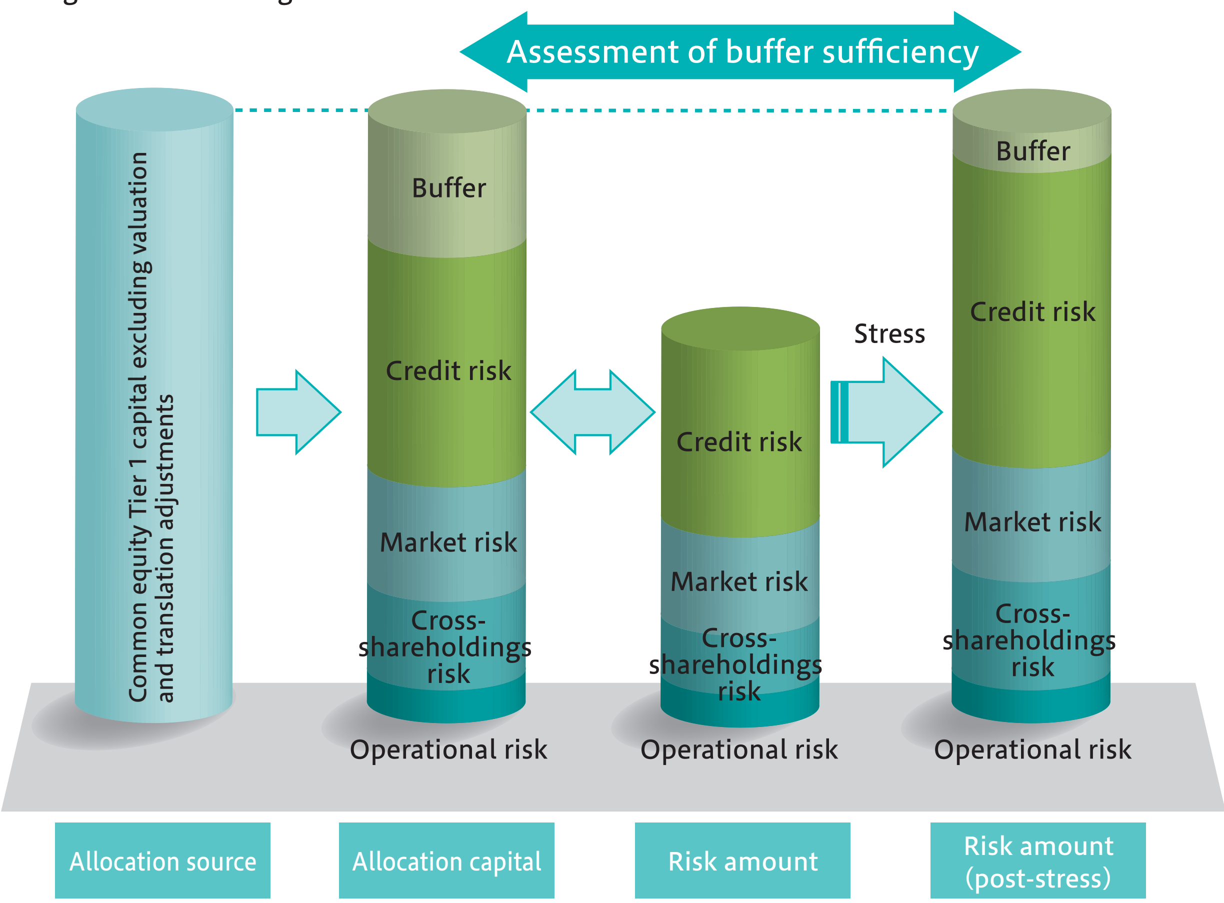
(1) Basic perspective
In addition to managing individual risks such as credit, market, and liquidity risks, it is necessary to comprehensively manage risks such as overall risk of the Bank as a whole, and to compare and contrast these risks with management vitality. For this reason, the Risk Management Department is taking the lead in developing a system for integrated risk management, strengthening the management of various risks, and promoting the advancement of integrated risk management.

(2) Integrated risk management framework
As one of the methods for integrated risk management, we implemented a system of "Integrated risk management" to measure the amount of risk by each category such as credit risk and market risk using a unified framework (Value at Risk (VaR), etc.) and integrate them to be compared with management vitality (equity capital).

In specific terms, the Board of Directors determines allocation of risk capital by risk category every six months, with the amount obtained by subtracting valuation and translation adjustments, etc. from common equity Tier 1 capital as the allocation source.

The department for risk management regularly monitors the risk amount to determine whether it is within the allocated risk capital. The Management Committee is reported the results every month through the Asset Liability Management (ALM) / Profits Management Committee as well as the Executive Committee.

<< Integrated risk management framework >>



Risk Management << Management by Risk Category >>

Credit risk management

Credit risk refers to the possible loss that a bank may suffer because a bank's business partner or securities issuer cannot repay/redeem interest and/or principal as promised due to worsening business conditions, etc.

At the Bank, asset-based lending accounts for the majority of credit risk, and ensuring the soundness of asset-based lending is an important task in managing credit risk in the future.

In order to perform strict credit risk management, mutual checks on credit risks between related departments are necessary. At the Bank, the Risk Management Department is independent from the sales promotion departments and the examination departments, and plans and verifies the management system that forms the basis of credit risk management, such as a credit rating system, asset self-assessment, and amortization and depreciation system, which all work as a regular check function.

Market risk management

Market risk refers to the possible loss that a bank may suffer due to fluctuations in market factors such as interest rates, exchange rates, and share prices.

For the departments in charge of market transactions, the department in charge of trading (front office) is separated from the department in charge of risk management and the department in charge of routine paperwork (middle and back offices) to provide a check and balance system.

Our basic policy is to recognize the importance of impact of fluctuations in market factors for management and control risks and to take appropriate actions. In particular, bonds and shares are subject to price fluctuations, and therefore, we deal with them within the range of proper transaction size by determining suitable and sufficient risk assessment.

Liquidity risk management

Liquidity risk consists of cash flow risk and market liquidity risk.

Cash flow risk means the possible loss that a bank may suffer if the bank is unable to secure the necessary funds due to mismatches between operating and funding periods or unexpected capital outflows or is forced to raise funds at significantly higher rates than usual. Market liquidity risk refers to the possible loss that a bank may suffer due to an inability to trade because of market turmoil, etc. or a trade where the bank is forced to accept significantly unfavorable price.

Our basic policy is to recognize the importance of impact of liquidity risk for the Bank. When liquidity risk becomes apparent, there arises a possibility of directly leading to management failure. We constantly assess the status of liquidity risk precisely.

Operational risk management

Operational risk is the possible loss that the Bank may suffer due to inadequate operational processes, activities of workers such as executives, employees, and temporary employees, and functions of systems, or exogenous events. The Bank divides operational risk into five categories as follows in accordance with the organizational structure and content of operations: (1) administrative risk, (2) systems risk, (3) tangible asset risk, (4) human risk, and (5) legal risk, in order to effectively manage risks.

The Board of Directors has established a "Basic Policy on Risk Management" and "Basic Regulations on Operational Risk," which stipulate basic matters concerning operational risk management. The Director in charge of the Risk Management Department is designated as the person in charge of supervising overall operational risks and the Risk Management Department is designated as the integrated operational risk management division. The Risk Management Department plans and supervises the overall management of operational risk under the direction and supervision of the director in charge, and each "risk management-related department" manages each risk from a professional standpoint.

Crisis Management

Based on our social responsibility and public mission as a regional financial institution, the Bank has developed a system that can respond to emergencies quickly and appropriately in the event of a major natural disaster, system failure, epidemic of a new type of influenza, etc. and convey relevant information to everyone within the organization.

Specifically, in order to ensure the safety of our customers, executives and employees, and to perform operations smoothly, we have a crisis management plan (Business Contingency Plan (BCP)). We conduct regular training to ensure its effectiveness and periodically review its contents. We have also established a system to convene an emergency response committee chaired by the President in the event of a crisis. For major earthquake disasters, we have developed measures such as “backup offices” and “backup systems” based on the expected impact, as well as strengthening our system against cyber attacks that become a societal problem.

Cyber security management

In order to cope with cyber attacks, we have established a list of “Regulations for Cyber Security Management” and implement multi-layered measures to prevent unauthorized entry into the system and to detect viruses. We are continuously reviewing these regulations to ensure their effectiveness.

The “Gungin CSIRT*” installed in the Systems Development Department plays a central role in dealing with cyber attacks. In addition to taking necessary measures, we collect relevant information and conduct classes and training in cyber security and cyber attacks. We are continuously strengthening our security management system.

*CSIRT: Abbreviation for “Computer Security Incident Response Team”

Management on outsource operations and introduction of new products and new businesses

When outsourcing operations, the Bank has established the “Outsourcing Management Regulations” that outline the procedures for starting outsourcing, during outsourcing, and at the end of outsourcing to maintain a level of operation equivalent to work done in house, and we strive to ensure that functions for customer risk management and operational risk management work well in outsourced operations.

In addition, when introducing new products and new operations, we identify, evaluate and manage in advance the presence/absence of inherent risks and the types of risks. Further, we have established and operated a management framework that allows multiple departments to verify risk from various angles so that they can prepare materials and measures for coping with risk and explain them to our customers.

Building a risk appetite framework (RAF)

The Bank performs integrated management of profits, risk, and capital, and makes the best use of limited capital and management resources, and accordingly, builds and utilizes the “Risk Appetite Framework (RAF),” a framework for business management that optimizes risk and return. (Policies under the New Mid-term Management Plan 2019)

<< Integrated management of profit, risk and capital >>