

Comprehensive Control Mechanisms for Specific Risk Categories

Toward a Stronger Risk Management System

Shiga Bank has been authorized to adopt the advanced Foundation Internal Ratings-Based risk management approach under the new Basel II BIS capital adequacy requirements, bringing us to a new stage in our efforts to build an advanced risk management system based on the principle of accountability. By continuing to develop these methodologies and constructing still more advanced risk management systems, we aim to further enhance our capabilities in this important area.

(1) Comprehensive Risk Management

Our Assets & Liabilities Management Department is responsible for unified monitoring of all risk.

In particular, we are taking steps to appropriately evaluate loan concentration risk, which is outside the scope of the capital adequacy requirements, and interest rate risk on our own accounts. We have quantified these risks to compare them with the Bank's regulatory capital.

(2) Comprehensive Risk Management

In our comprehensive risk management, we measure and manage risk quantitatively using such integrated yardsticks as the (maximum) Value at Risk (VaR) formula applied to each risk category. At the same time, we comprehensively control quantifiable risk and ensure that the magnitude of risk is kept within the specified ratio to regulatory capital, based on the capital allocation system (of covering each risk category with an amount no smaller than the maximum potential loss). In line with the launch of Basel II in March 2007, we are also reforming our capital allocation system to create more sophisticated risk management mechanisms.

(3) Credit Risk Management

We regard credit as the most important category of risk in terms of scale and scope. We are creating appropriate mechanisms for management of credit risk by putting in place a borrower-rating system based on the Foundation Internal Ratings-Based approach under Basel II.

(4) Operational Risk Management

Operational risk should be avoided as much as possible during the course of daily operations. We are taking measures to forestall such risk where its emergence is expected, and to minimize impact when it materializes. Risk appraisal is based on the regular implementation of the Bank's risk and control self-assessment standard as part of our efforts to establish a risk management system in conformity with Basel II.

To refine our risk management, we gather and analyze data relating to operational risk, and implement measures aimed at forestalling such risk as well as controlling, transferring and avoiding risk. To increase the effectiveness of risk management, we are adopting the Plan-Do-Check-Act (PDCA) cycle.

(5) Market Risk Management

To ensure stability of earnings generation, we draft an ALM plan each half-year, which incorporates plans for investments in securities and other instruments, taking into account the risk-return scenario of the entire Bank. The status of market risk is quantified and monitored, with findings reported to top management. Organizationally, the business, administrative, and risk management functions are conducted by separate departments, each of which checks the operations of the others.

(6) Liquidity Risk Management

With respect to managing the flows of funds, the Securities & International Department monitors the financial environment, balance of liquid assets, expected cash outflows, and other fund-raising factors, and acts as appropriate. At the same time, the Assets & Liabilities Managing Department keeps track of day-to-day risk management, to ensure that obstacles to our fund-raising do not appear.

(7) Reputational Risk Management

The Bank has formulated a general outline for dealing with rumors that could affect its business, and has put place measures and internal systems to deal with exceptional situations or expected exceptional situations related to reputational risk.