Improving Risk Management

With the progress of financial deregulation and the development of information technology, the risks facing financial institutions have grown in complexity and will continue to do so. In this context, based on the recognition that our urgent task was to put in place an integrated control system that would allow us to accurately identify risks and execute appropriate control, in December 2000 we established the Risk Management Committee, an organization designed to achieve integrated risk management, whereas previously responsibility for risk management had been divided among head office divisions. With the achievement of continuous improvement in the quality of risk management positioned as a core management objective, we are committed to enhancing our risk management techniques.

Credit Risk Management
To manage credit risk, we have implemented an internal credit rating system to supplement our rigorous case-by-case screening process and other conventional risk management techniques. We have also introduced the Credit Risk Quantification System developed by a consortium of regional banks for portfolio management.

Operational Risk and Systems Risk Management
We are augmenting the internal audit function to prevent trouble resulting from clerical errors, system failure, and other operational processing. Moreover, we have our computer systems audited by outside specialists to ensure rigorous risk management.

Market and Liquidity Risk Management
At Michinoku our efforts to monitor, control and manage risk include setting risk limits to control market risks, as well as setting limits to our securities balances and foreign exchange positions, to prevent occurrence of any avoidable loss. We are also committed to maintaining stable and appropriate cash flows to address liquidity risks, as we manage the investment and financing of marketable funds, transfer of large amounts of money, and payment reserves.

Legal Risk Management
By ensuring thorough compliance with laws and regulations and internal rules, we are striving to achieve soundness and appropriateness throughout management and operations.

Compliance
The Bank’s role is to manage funds deposited by its customers safely and soundly and to make good use of them for the local community. At Michinoku Bank, we have long been cognizant of banks’ societal role and public mission. Accordingly, we have earnestly endeavored to earn the unwavering trust of our customers and the local community. To this end, everyone at the Bank is doing their utmost to earn the confidence of our customers and shareholders through their daily work, adhering to the Michinoku Bank Code of Ethics, a set of action guidelines for ensuring compliance.

Compliance Manual
In line with our commitment to the ensuring of compliance as one of the most critical issues, we have prepared the Compliance Manual, which has been distributed to all directors and personnel of the Bank and is being utilized effectively. An annual compliance program, which is an action plan, has also been, established.

Compliance Committee
The Compliance Committee has been established to systematically ensure compliance with laws and regulations, internal rules and procedures. The committee meets monthly to ensure integrated management of compliance issues. We are thus actively addressing the issue of compliance in a bid to become a bank able to thrive in the new era.