To measure market risk, the Bank introduced value-at-risk (VaR) measurement and is now striving to assess risk on this basis.

To provide a system of market checks and balances, the Bank is separating the sector tasked with executing market transactions (the "front office") from the sector responsible for managing the general administration of those market transactions (the "back office"). We also instituted a "middle office," consisting of risk management functions.

To control market risk, the ALM Committee examines the Bank's asset portfolio from the viewpoint of market risk and sets limits on interest rate risk, price fluctuation risk, and exchange rate risk within the range for that risk capital. Management of these risk limits is performed on a daily basis.

Based on these risk parameters, each Bank department handles market transactions flexibly and efficiently. Moreover, a comparison of these limits with the risk volumes calculated by the middle office is monitored by managers on a frequent basis via the Bank's intranet, providing valuable feedback for management decision-making.

Operational Risk Management

Operations, products, and services are becoming increasingly sophisticated and complex as they diversify. The Osaka City Shinkin Bank's system for management of operational risk and its risk management policy for management methods are stipulated in the Operational Risk Management Policy and Operational Risk Management Regulations.

The Bank has created a Risk Generalization Department which comprehensively manages operational risk along with other departments for overseeing specific types of risk including business risk, and controls risk based on a system in which mutual constraints operate.

A number of committees, including the Operational Risk Management Committee, confer regularly to debate these various risks. Moreover, we are developing a system in which these committees report their findings to the management team at a managerial meeting.

System Risk Management

System risk is the potential of loss from damage to or the malfunctioning of computer systems, system defects, misuse, and the like.

At Osaka City Shinkin Bank, we have established System Risk Management Regulations whose purpose is to maintain the safety and reliability of our systems and to protect our data assets while avoiding system risk. Specifically, the Bank has seismically reinforced and isolated the computer room, and installed in-house generators and fire-extinguishing equipment. In addition, the Bank is working to add redundancy to crucial infrastructure and has implemented policies to keep damage to a minimum even in the unlikely event of a major disaster.

Entry and exit on the independent computer floor is rigorously restricted and controlled. Operationally, by clearly separating the System Development Department from the Operations Department, the Bank has guaranteed the functioning of mutual constraints and prevents system risks due to the unlikely event of misuse.

In order to protect customers' valuable assets and critical information from the recent surge in cybercrime, the Bank has established a Basic Policy for Information Asset Protection (Information Security Policy) and strengthened its control mechanisms relating to information security based on relevant regulations. The Bank is also making efforts to improve security by blocking unauthorized access from external connections such as the Internet, preventing information leaks via computer viruses, and promoting timely information sharing with external institutions regarding increasingly high-level, sophisticated cyber-attacks.

Business Risk Management

Business risk is the risk of incurring losses as a result of the employees who perform administrative tasks neglecting to do their work correctly, or due to the occurrence of accidents or misconduct.

At the Osaka City Shinkin Bank, in order to manage business risk appropriately and insure the properness of operations, we have built a system in which mutual constraints and checking functions work fully and systematically, based on internal audits by in-house auditors and the Audit Department and external audits by an audit corporation. In addition, the Bank also develops regulations and manuals and has constructed a system through which employees can easily share information through an in-house computer system called the Shishin Information Network System (SINS).

In order that our customers will feel confident and comfortable in doing business with us, the Bank is working to enhance its training systems. These include joint training programs, OJT, and a range of telecourses through which employees can acquire operational knowledge and improve their business capabilities. The levels of employee awareness and behavior are also improved through prior confirmation and back-checking of the details regarding the execution of business, as well as enhancing self-inspections and the functioning of mutual constraints.

Additionally, the Bank is focused on increasing the sophistication of its IT application controls through system checks that use Bank-designed supplementary systems and through the construction of a system for monitoring the processing of business.

Because business risk is diversifying in keeping with changes to the external environment, the Bank is constantly collecting and analyzing data on potential and actual business risks. We are working to enhance our business risk controls based on the PDCA cycle, for example, by adding and changing controls in the course of application control as needed when it comes to the sources of risk that will have an effect on the operational process.

Business Continuity Systems

In view of the public nature of the Bank's operations, the Bank has worked to provide the necessary financial services to support social and economic activities in the community even in the event of natural disasters such as earthquakes, system failures, or outbreaks of new strains of influenza virus. It also created a Basic Business Continuity Plan for rapid recovery and is working to upgrade its business continuity systems.