

Management Policy of The Chukyo Bank

[Risk Management]

The risks of financial institutions are abruptly increasing and diversified due to globalization of finance, improvement of information technology and innovation of financial instruments. Under such circumstances, a risk management system based on principal of self-responsibility is indispensable for effective management and stable earnings. Based on such recognition, the Bank strives to develop its management system to mitigate various risks.

[Credit Risk Management System]

<Evaluation System>

Under the Bank's evaluation system, the Business Promotion Section does not influence the examination of loans, since the Examination Section is independent of the Business Promotion Section. Furthermore, in order to mitigate certain risks, the Bank targets its business to local companies and individuals operating in various fields; not concentrating on any specific industry or customer. In October 2000, the Bank unified the Loan Department and the Credit Administration Department, and established the Loan Administration Department. In addition, an examination system based on self-assessed debtor segments was established. As a result, credit risk is well controlled.

<Assets Management System>

The Bank established the Asset Assessment Office, which carries out fair and strict self-assessments of assets every six months based on the prescribed procedures. The Credit Auditing Department, which is independent of the Examination Section, examines the results of the self-assessment. In addition, the Bank appropriately depreciates and provides for possible losses in order to maintain the soundness of assets.

[Market Risk Management System]

<Market Risk Management>

The effect of the fluctuation of the market to the Bank's profitability is rapidly increasing due to the liberalization of finance, diversification of financial instruments and introduction of fair value accounting. In such environment, the Bank is advancing its market risk management to maintain stable profits. In October 2000, the Bank closed a risk advisory contract with The Tokai Bank, and introduced the market risk management method based on VAR (value at risk) in April 2000. As a result, the Bank is able to measure the market risks and established the system to gain target profits without exposure to unacceptable market risks.

<Asset Liability Management System>

ALM committee, which consists of management and managers of related departments, investigates the interest rate risks and liquidity risks on the Bank's assets and liabilities every month. In addition, sub-committees of the ALM committee, interest forecast committee and capital funds committee provide a variety of information such as interest forecast, gap analysis and VAR to ALM committee to assist the decision making of the committee. As a result, the Bank strives to maintain stable profits without harming the balance of assets and liabilities.

[Administration Risk Management System]

The Bank is implementing documents, manuals, office equipment and systems based on the relevant rubrics and procedures to promote the accurate administration. In addition, the Office Innovation Section of the Systems and Operations Administration Department holds training programs and instructions in the branch office. The Inspection Department holds annual and extra examinations and each branch office holds monthly examinations. As a result, the quality of administration is improved, and fraud and errors are prevented.

[System Risk Management System]

The operation of the Bank is increasingly dependent upon this system due to the progress of recent information technology. Thus correspondence to system risk is a critical matter for the Bank. The Bank is always prepared to prevent disorders, such as unusual stoppage of computers. In addition, the Bank can execute a "contingency plan", which prepares it in the case of an emergency. As a result, the Bank is able to maintain its operations even in unanticipated situations.

[Establishment of Compliance System]

The Bank strives to improve and maintain its Compliance System, considering that the establishment of a strong Compliance System is essential to social recognition and trust.

To state it concretely, the Bank strives to maintain its Compliance System by modeling it after the manual which describes the action steps for executives and regular employees, describes the statutes to be observed, and explains ways to cope with misconduct, mapping out the "Compliance Program" and incorporating a training plan.

[Streamlining the efficient management]

By strengthening managerial constitution and becoming a trusted bank of choice for customers, the Bank aims to increase operating efficiencies and cost performances.

By increasing operating efficiencies in administration and completing the implementation of a new operating system in August, 2000 branches are now able to operate with fewer employees.

In addition, the Bank has increased business efficiency in administration by centralizing its clerical work at all branches by introducing the Exchange image processing system and

Exchange OCR system.

Main management efficiency index <based on non-consolidated financial statements>

	March				
	97	98	99	2000	2001
Operating expenses(Millions of yen)	26,360	25,194	24,080	23,886	22,913
Operating expenses ratio(%)	1.92	1.85	1.72	1.72	1.66
Operating expenses/ Operation income(%)	70.67	83.81	80.23	79.16	73.79
Number of employees	2,079	1,935	1,820	1,713	1,646

*Operating expenses ratio equals operating divided by annual average balance of deposits and is one of the indexes to show the Bank's operating efficiency.

Table Asset Assessment based on Financial Reconstruction Law
< based on non-consolidated financial statements > March 31, 2001 (Millions of Yen)

	Credit extended (A)	Secured and guaranteed amount of credit extended(B)	Allowance arrangement
Legal or virtual bankruptcy loans(C)	28,053	11,580	Specific allowance for doubtful loans of 16,473
Possible bankruptcy loans(D)	19,082	14,409	Specific allowance for doubtful loans of 3,224
Caution loans(E)	22,528	11,234	Ordinary allowance for doubtful loans of 1,002
Normal loans(F)	1,149,213	/	Ordinary allowance for doubtful loans of 3,791
Total	1,218,877	/	24,491

Notes:

1. The expected recoverable amount from collateral asset is computed by multiplying a certain rates to the appraisal amount of collateral asset based on our policy regarding collateral appraisal
2. The ordinary allowance for doubtful loans is provided based on our policy regarding allowance for doubtful loans as follows. For the caution loans among the risk management loans, allowance equals to the estimated loss in future three years based on the past results of write-off. For the rest of loans among the risk management loans and the normal loans, allowance equals to the estimated loss in a year based on the past results of write-off. This policy complies with Financial Inspection Manual, Financial Services Agency, the Japanese government created.
3. The ordinary allowance includes allowance for the certain overseas loans.

Table Risk Management Loans based on Accounting Standards for Banks in Japan
< based on non-consolidated financial statements > (Millions of Yen)

	March 31, 2000	March 31, 2001
Claims in bankruptcy	11,422	12,170
Non-accrual loans past due six months or more	34,674	34,330
Accruing loans past due three months or more	984	937
Restructured loans	15,386	21,590
Total of Risk Management Loans(A)	62,468	69,029
Balance of Loans and Bills Discounted(B)	1,212,594	1,183,489
Ratio of Risk Management Loans(A) to (B)	5.15%	5.83%

Table Risk Management Loans based on Accounting Standards for Banks in Japan
< based on consolidated financial statements > (Millions of Yen)

	March 31, 2000	March 31, 2001
Claims in bankruptcy	11,452	12,193
Non-accrual loans past due six months or more	38,233	34,353
Accruing loans past due three months or more	984	937
Restructured loans	15,386	21,590
Total of Risk Management Loans(A)	66,056	69,075
Balance of Loans and Bills Discounted(B)	1,217,349	1,185,017
Ratio of Risk Management Loans(A) to (B)	5.43%	5.83%