Management Policy of The Chukyo Bank

[Risk Management]

The risks of financial institutions rapidly expanded and diversified with the globalization of financial markets, computerized systems by growth of information technology and innovation of financial instruments, such as the rise of derivative financial instruments. Since Japan's Big Bang liberalized financial markets and severe competition among financial institution, it is difficult to gain profit only by minimizing risk. Under these circumstances, the Bank believes it is necessary to establish an appropriate risk management system based on the responsibilities of individuals, and seeks to manage various risks by keeping its management sound and earning profits. In April 2002, a general risk management group was established in the General Planning and Administration Department to manage total risks of the Bank.

[Credit Risk Management System]

< Credit Risk Assessment >

To assess the credit risk of borrowers, the Bank has established a credit rating system under which borrowers are classified into several categories. To manage credit risk strictly, the Section of credit risk assessment is independent of the Business Promotion Section. The Bank loans to various local companies and individuals rather than to specific customers or companies of a specific type of business to decentralize credit risks.

<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 Inspection 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, BPV（basis point value）, 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 Systems and Operations 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.

[Reformation of Management]

For quick decision-making, in January 2002, an executive officer system was introduced into the Bank to define actions and responsibilities to be taken by executive officers and directors. The number of the directors was reduced from 13 to 7. To integrate the head office function, in April 2002, headquarters, which had been organized by 17 departments and 1 office, was reformed to

12 departments and 1 office. In addition to the integration of the head office function, for quick decision-making and reformation of staff organization, management by groups was introduced to the Bank instead of the former management by sections.

[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.

The Bank predominantly focused on increasing the efficiency of the sales branch networks. To increase the efficiency of the sales network among branches, during the year ended March 31, 2002, Gifu and Kumano branch offices were closed. Additionally, the Anjo branch office was converted to Anjo sub-branch office.

Main management efficiency index

<based on non-consolidated financial statements>

	March				
	98	99	2000	2001	2002
Operating expenses(Millions of yen)	25,194	24,080	23,886	22,913	21,732
Operating expenses ratio(%)	1.85	1.72	1.72	1.66	1.58
Operating expenses/ Operation income(%)	83.81	80.23	79.16	73.79	81.18
Number of branches	101	100	99	100	98
Number of employees	1,935	1,820	1,713	1,646	1,548

*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.

＜The Bank (non-consolidated)＞

Table Ⅰ Asset Assessment and Reserve Based on Financial Revitalization Law

< based on non-consolidated financial statements > （Millions of Yen）

	March 31, 2001	March 31, 2002
Legal or virtual bankruptcy loans	28,053	41,285
Possible bankruptcy loans	19,082	34,127
Caution loans	22,528	11,506
Total loans other than normal loans （A）	69,663	86,917
Normal loans	1,149,213	1,127,224
Credit limit （B）	1,218,877	1,214,141
Total loans other than normal loans ／ Credit limit （A）／（B）	5.72%	7.16%

Reserved loans （C）	57,924	77,526
Reserve for possible loan losses	20,700	35,005
Secured or guaranteed	37,224	42,521
Reserved ratio (Reserved loans ／ Total loans other than normal loans, （C）／（A）)	83.15%	89.20%

Table Ⅱ Risk Management Loans based on Accounting Standards for Banks in Japan

< based on non-consolidated financial statements > (Millions of Yen)

	March 31,2001	March 31,2002
Claims in bankruptcy	12,170	23,522
Non-accrual loans past due six months or more	34,330	50,944
Accruing loans past due three months or more	937	722
Restructured loans	21,590	10,783
Total of Risk Management Loans(A)	69,029	85,972
Balance of Loans and Bills Discounted(B)	1,183,489	1,182,058
Ratio of Risk Management Loans(A) to (B)	5.83%	7.27%

Table Ⅲ Risk Management Loans based on Accounting Standards for Banks in Japan

< based on consolidated financial statements > (Millions of Yen)

	March 31,2001	March 31,2002
Claims in bankruptcy	12,193	23,525
Non-accrual loans past due six months or more	34,353	50,971
Accruing loans past due three months or more	937	722
Restructured loans	21,590	10,783
Total of Risk Management Loans(A)	69,075	86,002
Balance of Loans and Bills Discounted(B)	1,185,017	1,183,711
Ratio of Risk Management Loans(A) to (B)	5.83%	7.26%