

(Provisional translation)

Summary of Annual Supervisory Policies for Regional Financial Institutions for Program Year 2008

1. Smooth Finance for Small- and Medium-Sized Enterprise through Promotion of Region-Based Relationship Banking, etc.

- It is important that regional financial institutions conduct risk-taking and risk management carefully, in a manner suited to the actual conditions and characteristics of borrower companies, so that the regional financial institutions' smooth provision of funds for small- and medium-sized enterprises and the maintenance of the soundness of the regional financial institutions' own financial positions may work in a virtuous cycle. The FSA will precisely understand the financing trends of regional financial institutions and the situation of borrower companies, and reflect the findings in its supervisory activities. The agency will also encourage regional financial institutions to carefully examine loan applications based on the actual business conditions and characteristics of borrower companies, and fully explain their decisions to customers.
- It is important for regional financial institutions to endeavor to further promote region-based relationship banking. The FSA will follow up on the progress of their efforts in region-based relationship banking, and encourage them to proactively make efforts that accurately meet the financial needs of the region.
- The FSA will motivate regional financial institutions to make extensive efforts by introducing examples and giving praise to progressive efforts and efforts that should be practiced broadly.

2. Security and Convenience for Regional Users

- The FSA will verify whether regional financial institutions are explaining the risks accurately when selling investment trusts and on other such occasions, without imposing an excessive burden on customers in terms of time and procedures, so that the regional financial institutions are dealing with them adequately and appropriately.
- The FSA will confirm the regional financial institutions' system risk management, business continuity management in the event of earthquakes, pandemic influenza, etc, and preparedness for smooth shift to a paperless stock certificate system.
- The FSA will verify whether systems have been developed to prevent financial functions from being abused and to deal with victims properly.

3. Risk Management and Regional Financial System Stabilization

- The FSA will verify whether risks are properly managed under proper corporate governance — for example, whether credit risks associated with exposures to large borrowers, etc., are properly managed, and whether market risks are properly managed according to the status of investments in various financial

instruments.

- The FSA will identify what strategies regional financial institutions have established to enhance their profit base, including the progress of their efforts in region-based relationship banking.

4. Materializing “Better Regulation”

In making the above efforts, the FSA will work more closely with inspection departments and bureaus, etc., and endeavor to execute supervision in an integrated manner by sharing our understanding of regional financial institutions’ issues, etc., with local financial bureaus, more extensively than we have previously done.

- The FSA will utilize “The Principles in the Financial Services Industry” in interpreting and implementing the rules as they were originally intended.
- The FSA will gather and analyze information on market trends and risks, and promptly reflect such information in its supervision. The FSA will properly identify the actual business status of regional financial institutions, and endeavor to conduct supervision in an efficient and effective manner.
- The FSA will share the same recognition about rectifying problems with regional financial institutions through two-way dialogues.
- The FSA will improve the transparency and predictability by engaging in dialogues with regional financial institutions and distributing information to them.