

(Provisional translation)

Summary of Annual Supervisory Policies for Regional Financial Institutions for Program Year 2009

1. Experience of Financial Crisis and Basic Concepts on Supervision of Financial Institutions for the Future

- The FSA is placing “Better Regulation” as the basis and striving to further have it become embedded and enhanced. In doing so, the FSA will pay attention to the following points in particular.
 - (1) The FSA more than ever will strive to (i) conduct financial administration with a high risk sensitivity, (ii) conduct financial administration by looking at things from a citizen’s and a user’s point of view, (iii) conduct financial administration with an eye on the future, and (iv) help financial institutions autonomously improve management and make better business judgments.
 - (2) The FSA will work more closely with inspection divisions, the Securities and Exchange Surveillance Commission (SESC), and the Bank of Japan (BOJ), and endeavor to more extensively execute supervisory administration in an integrated manner by sharing the understanding of regional financial institutions’ issues, etc., with local financial bureaus; and
 - (3) The FSA will redouble efforts for human resource development and permeate financial knowledge.

2. Risk Management and Regional Financial System Stabilization

- Under the leadership and strong commitment of management personnel, regional financial institutions keep an eye on changes in the environment surrounding, and the FSA investigates whether regional financial institutions are implementing appropriate risk management.
- In particular, the FSA will also verify whether they properly manage credit risks associated with exposures to large borrowers, etc., and whether they pay careful attention to customers who are struggling to realize improved management, by taking measures such as paying visits regularly and providing management consultation consistently to such customers.
- The FSA will identify what kind of strategies are being built and executed by regional financial institutions to enhance their profit base, including the progress of their efforts in region-based relationship banking. In relation to this, the FSA will encourage regional financial institutions to enhance their equity capital.
- The FSA will be aware of the strong correlative relationships between (i) macroeconomics and movements in financial markets and (ii) the financial intermediary functions and the soundness of financial institutions’ finance, as well as scrutinize from the viewpoint of being able to continually and stably develop the financial system as a whole.

3. Performing a Smooth Financial Intermediary Function

○ There is a strong demand for regional financial institutions, which are supposed to grow in line with the regional economy while supporting each other, to prove the true value of their business model: region-based relationship banking. In view of this, the FSA will promote the following priority measures.

➤ Continuing to implement a questionnaire for SMEs, the FSA will further utilize the hotline for smooth finance. Through this questionnaire and these kinds of efforts, the FSA will have a firm grasp of the details of the financing climate and the state of borrower companies.

The FSA will investigate whether regional financial institutions make finance decisions based on the management status and characteristics of borrower companies on an everyday basis, and based on those things, whether regional financial institutions make accurate and detailed business judgments.

➤ Taking the opportunity to hear opinions from top managements, the FSA will encourage regional financial institutions to actively perform their financial intermediary functions focusing on value creation, so as to increase the added value of borrower companies.

In addition, the FSA will follow up on the progress of regional financial institutions' efforts in region-based relationship banking, thereby encouraging them to proactively make efforts that accurately meet the user needs.

○ Also with regards to personal finance such as housing loans, the FSA will encourage regional financial institutions to carry out operations that sufficiently consider customers' economic situations and lifestyles, including revisions to repayment conditions. Also with regard to new loans, the FSA will work to ensure a smooth provision of funds via detailed loan judgment that considers customers' economic situations.

4. Improving Customer Protection and Convenience for Users

The FSA will respect the autonomous efforts of each regional financial institution, and proceed with supervision that places importance on incentives. And the FSA will conduct investigations while placing priority on the following points, aiming to have improved customer protection and better convenience for users: (i) thorough management of information security, (ii) enhancing systems for providing explanations to customers, (iii) enhancing systems for processing consultations and complaints from customers, (iv) preventing abuse of financial functions, (v) ensuring business continuity for the pandemic influenza and so on.