

Mechanisms to Ensure Fair Business Operations

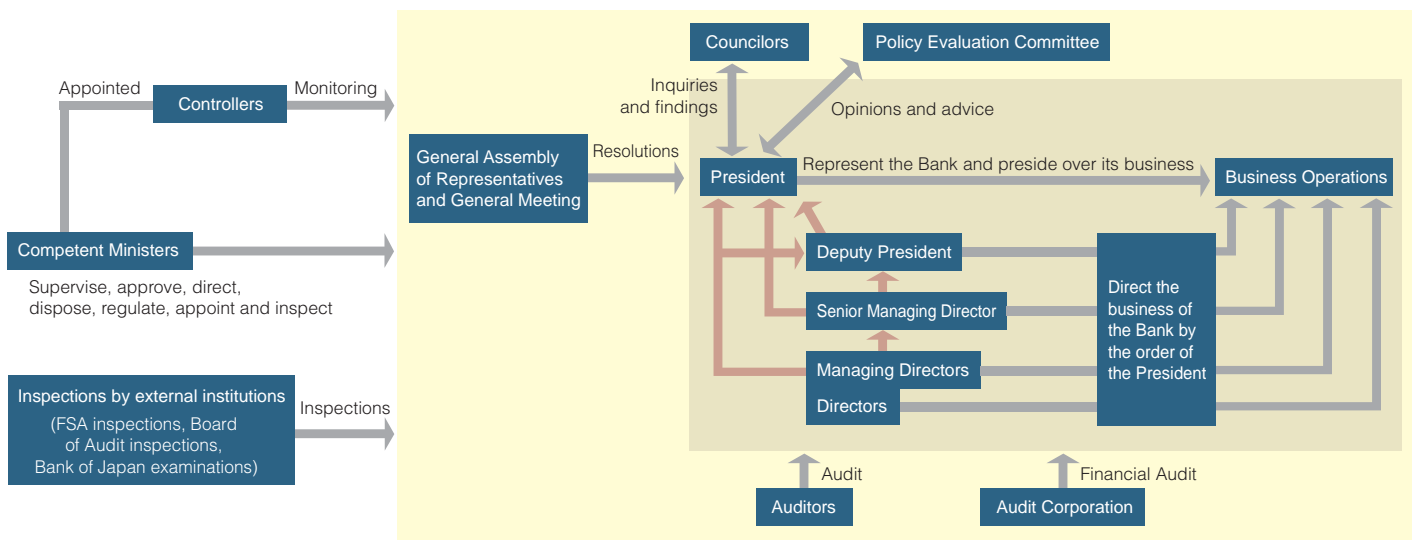
Governance

The Bank follows the management mechanisms prescribed by the Shoko Chukin Bank Law and other rules and regulations, and works constantly to improve its systems so that its business operations are fairly executed.

Basic decisions pertaining to the Bank's management are made by the General Assembly of Representatives, which is made up of representatives who are selected from the ranks of the small businesses from all over Japan – the Bank's investors – and manage the Bank autonomously. Executive decisions regarding Bank operations are made by the President, who is appointed by the competent ministers and is subject to their general supervision. The President represents the bank.

Auditors appointed by the competent ministers also audit the Bank's business operations. The Bank's operations are also subject to a legally established system whereby Councilors monitor its operations in response to inquiries from the Comptroller or President.

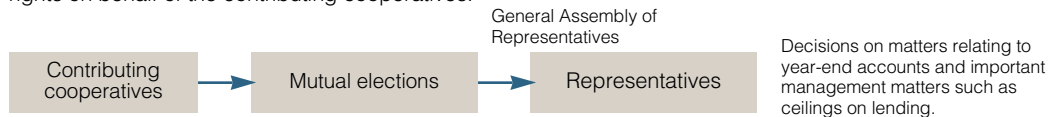
Starting fiscal 2004, financial audits by audit corporations have been introduced because of the heightened importance attached to appropriate disclosures of financial statements. A Policy Evaluation Committee has also been established to voice opinions and give advice on policy evaluation from an objective viewpoint.



Notes: 1. Competent Ministers: Minister of Economy, Trade and Industry and Minister of Finance
 2. : Support

General Assembly of Representatives

At present there are around 50,000 SME cooperatives in Japan and a majority of over 27,000 of these organizations have subscribed capital to the Bank. As the highest decision-making body of the Bank, the General Assembly of Representatives makes important management decisions. The Assembly is made up of representatives who are chosen from among members of these cooperatives through mutual elections held in each prefecture and serve four-year terms. Currently, there are 135 representatives, one for each constituency of 250 cooperatives. At the Assembly, the representatives voice opinions and exercise voting rights on behalf of the contributing cooperatives.



The General Assembly of Representatives is an open system for reflecting the collective views of the contributing cooperatives in an appropriate manner.

Councilors

Councilors respond to inquiries from the President concerning important managerial matters. Councilors are appointed by the President with the approval of the competent ministers, but a majority are appointed from among people associated with qualified subscribing entities. The term of office is three years.

Comptrollers

The Comptrollers are in charge of exercising the supervisory rights of the competent ministers over the Bank, and monitoring its operations. While the Bank has its own internal checking systems for risk management and compliance, the Comptrollers also monitor the performance of these tasks on a continuous basis.

Introduction of Policy Appraisals

From fiscal 2004, the Bank introduced policy appraisals with a view to fulfilling its expected role as a government-affiliated financial institution more efficiently and more effectively, and deepening the people's understanding of its activities.

The Bank's policy appraisal mechanisms are as follows.

① Management-by-Objectives Approach to Fulfilling Mission

In order to clarify our aspirations and make them the foundations of our business operations, we redefined the objectives stipulated in Article 1 of the Shoko Chukin Bank Law into the Bank's mission in a form that is more concrete and easier to understand.

As a medium-term target for fulfilling our mission, we set forth a Basic Plan (three-year cycle) comprising an Annual Plan formulated each fiscal year (one-year cycle) which serves as a more specific plan for achieving our objectives and incorporates yardsticks for measuring results (Figure 1).

② Implementing a Management Cycle Based on Management-by-Objectives

As Figure 2 shows, we shall use the "PDCA (Plan, Do, Check, Action) Cycle" as a tool for better fulfilling our policy role.

③ Using Disclosure to Realize Accountability

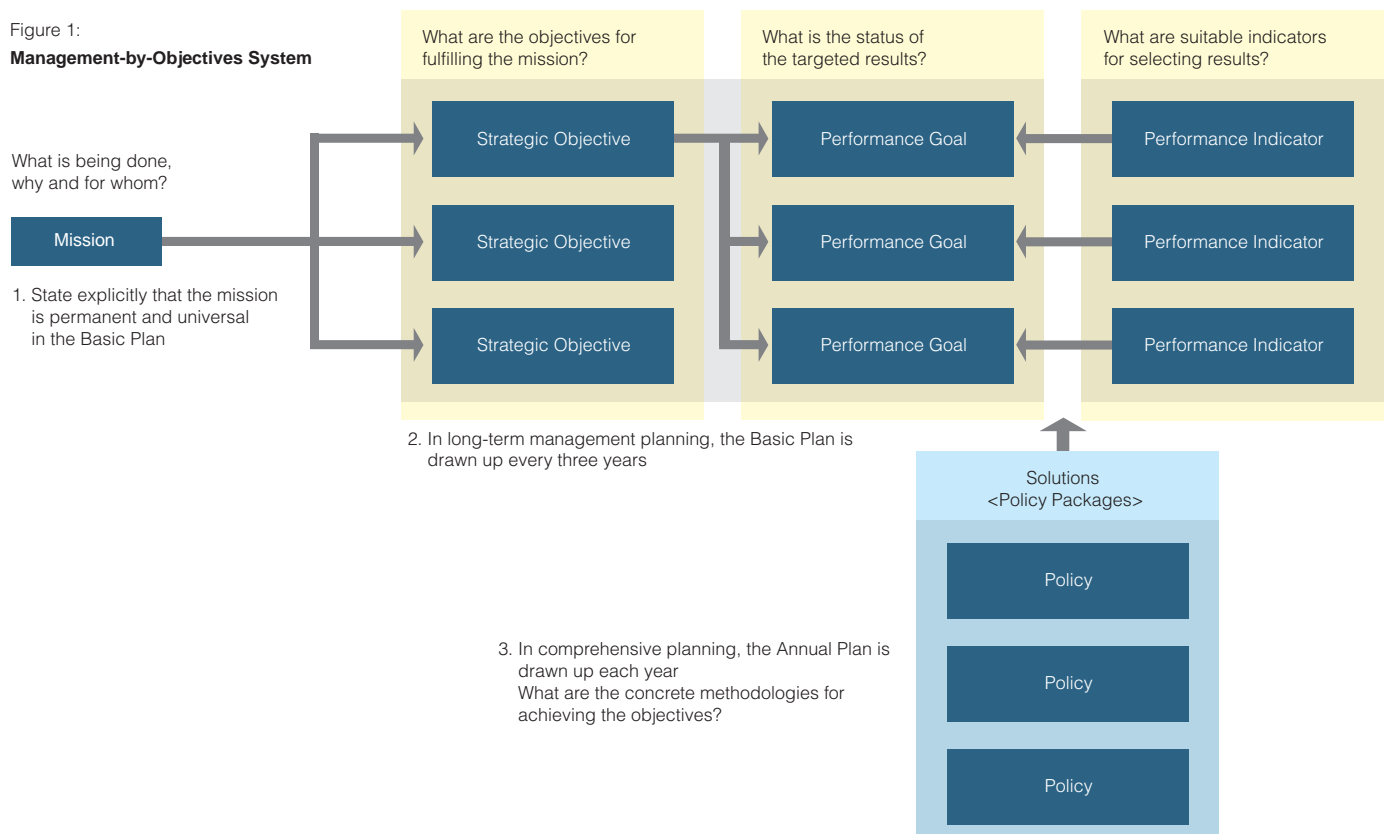
We will use our website and pamphlets to disclose our Basic and Annual Plans at the planning stage and our Basic and Annual Plan Evaluation Reports at the evaluation stage. Our Fiscal 2004-2006 Basic Plan and our Fiscal 2004 Annual Plan can be found (in Japanese) on our website at <http://www.shokochukin.go.jp/>.

Although the Bank is primarily responsible for formulating and evaluating plans, we have also set up a Policy Evaluation Committee consisting of influential individuals from outside the Bank to ensure objectivity and provide advice (Figure 2).

Policy evaluations represent the Bank's efforts to comply with the intent of the Reorganization and Rationalization Plan for Special Public Institutions (Cabinet Decision of December 19, 2001) to "study policy finance evaluation methodologies and mechanisms for reflecting their results in operations."

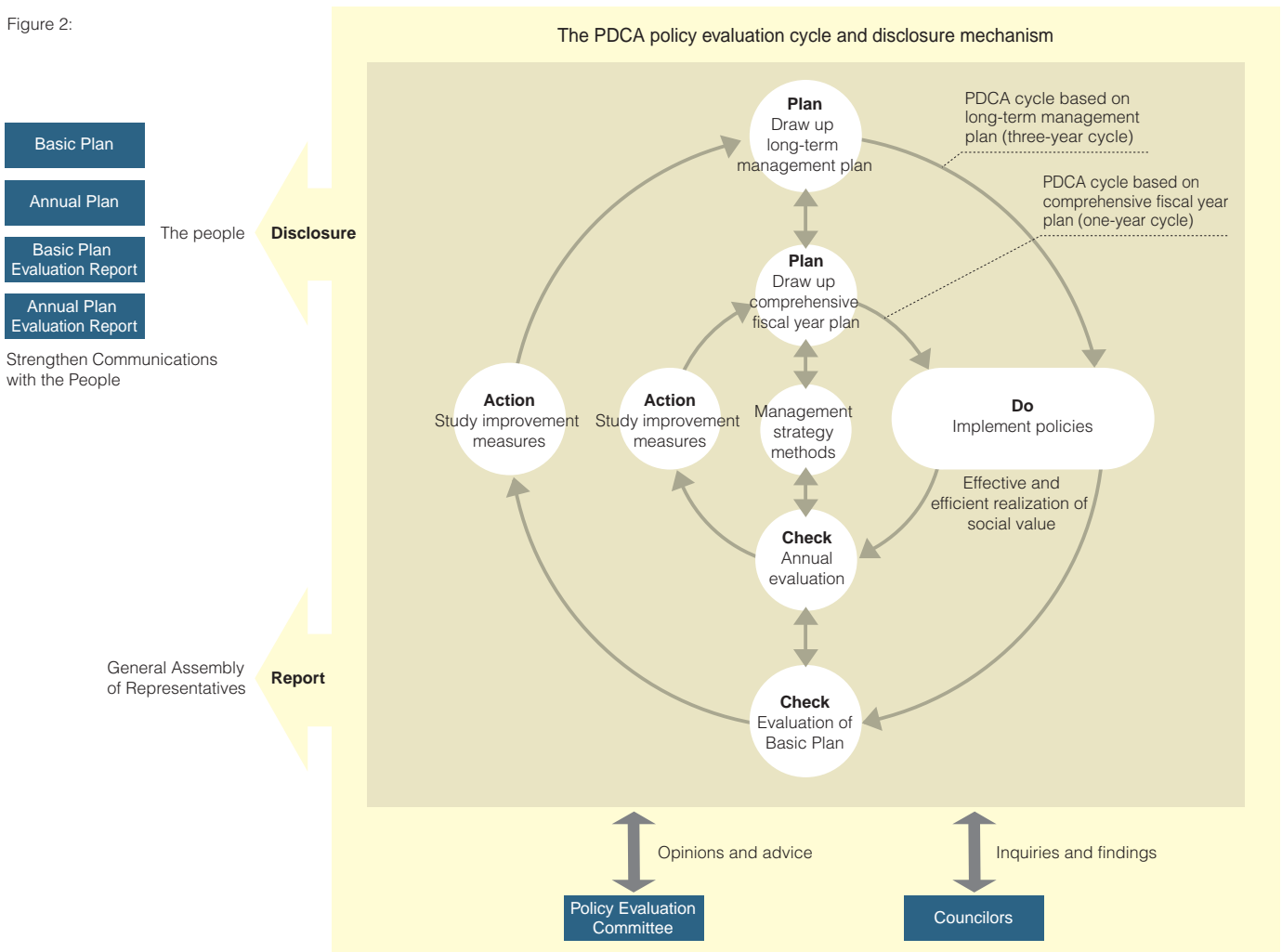
Figure 1:

Management-by-Objectives System



Introduction of Policy Appraisals

Figure 2:



The Policy Evaluation Committee

Consisting of influential individuals from outside the Bank, the Policy Evaluation Committee discusses policy evaluation mechanisms and methodologies, the contents of Basic and Annual Plans and the Basic and Annual Plan Evaluation Reports, and advises the President.