

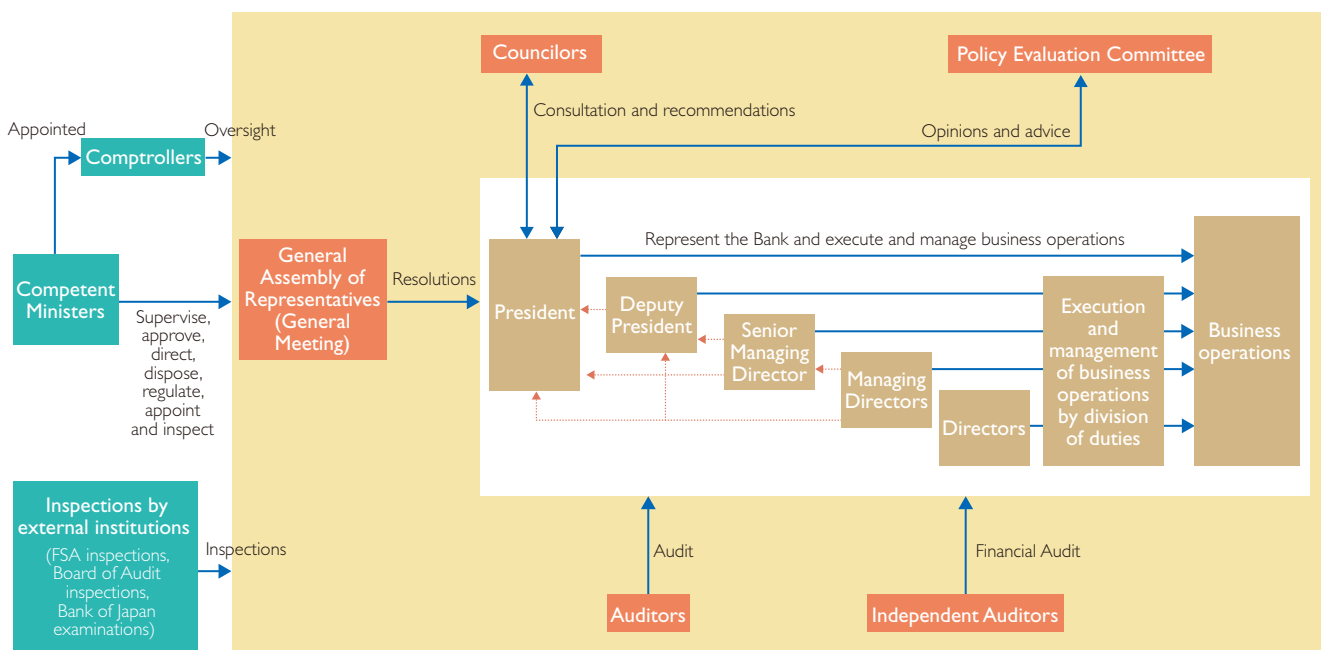
THE SHOKO CHUKIN BANK'S GOVERNANCE SYSTEM

The Bank adheres to the management systems prescribed by the Shoko Chukin Bank Law and other rules and regulations, and constantly works to improve its systems to ensure the maintenance of sound business operations.

The Bank is managed autonomously by its investors, with basic decisions pertaining to the Bank's management made by the General Assembly of Representatives, which is made up of representatives selected from the ranks of SME cooperatives from all over Japan. These SME cooperatives are the Bank's investors. Management execution is carried out by the President, who is appointed by the competent ministers, and is subject to general supervision by these ministers. The President is the official representative of the Bank. Auditors, who are also appointed by the competent ministers, audit the Bank's business operations. Furthermore, under a legally prescribed system, Comptrollers oversee the Bank's business operations, and Councilors act as advisors to the President.

Starting fiscal 2004, financial audits by independent auditors are being introduced owing to the heightened importance attached to the appropriate disclosure of financial statements.

A Policy Evaluation Committee has also been established to provide objective opinions and advice in the area of policy evaluation.

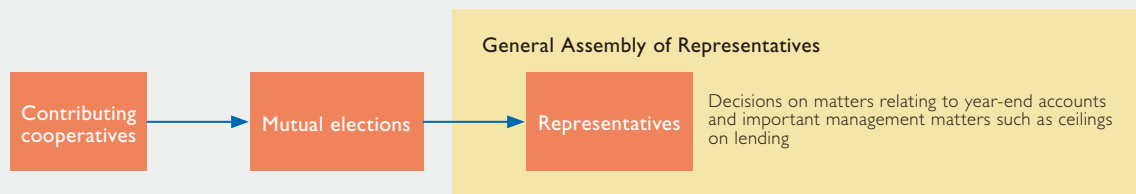


Notes: 1. Competent Ministers: Minister of Economy, Trade and Industry, and Minister of Finance
 2. ◀.....: Support



● General Assembly of Representatives

At present there are around 50,000 SME cooperatives in Japan and a majority of over 26,000 of these organizations have subscribed to the Bank's capital. 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 provide advice to 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 overseeing its operations. While the Bank has its own systems of internal checks for risk management and compliance, the Comptrollers also monitor the performance of these tasks on a continuous basis.

POLICY APPRAISAL SYSTEM

Shoko Chukin introduced a policy appraisal system in fiscal 2004. This system aims to ensure that the Bank effectively and efficiently carries out government policies that apply to it. In addition, publicizing these efforts will help the public better understand the Bank.

In conjunction with the introduction of this policy appraisal system, the Bank formulated a three-year Basic Plan covering fiscal 2004 through fiscal 2006 and an Annual Plan based on the Basic Plan. The progress made is evaluated and reviewed and then summarized in an Annual Evaluation. By incorporating the issues identified in this evaluation in the Annual Plan for the following fiscal year, the Bank has followed a one-year management cycle (Plan-Do-Check-Action).

At the same time, on May 25, 2007 the Diet passed the Shoko Chukin Bank Limited Act, under which the Bank will become a special company (a joint-stock company pursuant to a special law) in October 2008.

The Bank continues to use this policy appraisal system due to its effectiveness in pursuing policy and the outcome it has achieved during the transition period.

Thus far, the Bank has devised three-year Basic Plans, but beginning with the next Basic Plan, Shoko Chukin will change the duration to one and a half years, from April 2007 to September 2008, when its role as a government-affiliated financial institution ends. The Bank plans to continue preparing one-year Annual Plans.

The policy appraisal system has become firmly entrenched over the past three years that the Bank has worked with it, and the Bank has decided not to conduct an appraisal of the most recently established Basic Plan, given its irregular duration (one and a half years) and advice from the Policy Evaluation Committee that the one-year management cycle is essential to PDCA. Shoko Chukin will ensure its accountability by releasing an annual evaluation covering one year.

I. Introduction of Management by Objectives

To achieve the aims of the Bank's policy appraisals, the Bank has introduced a system of management by objectives (MBO). This system comprises strategic objectives*¹ and performance goals*², which are set with the aim of fulfilling the Bank's mission, along with policy packages formulated as a means of achieving these goals and performance indicators used to measure the effectiveness of the policies used.

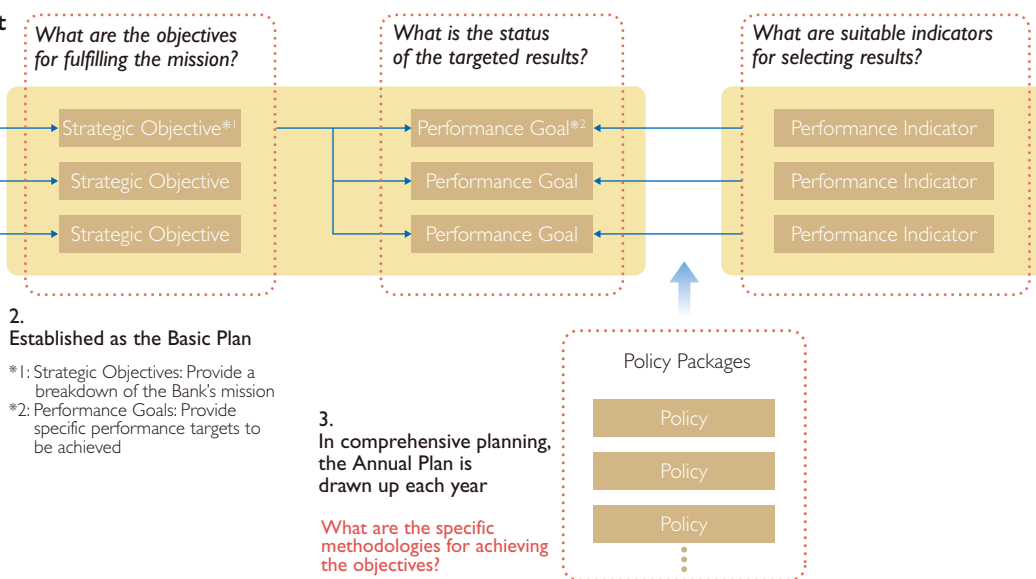
■ Figure I

System for Management by Objectives

What is being done, why and for whom?

Mission

1. Stated explicitly in the Basic Plan



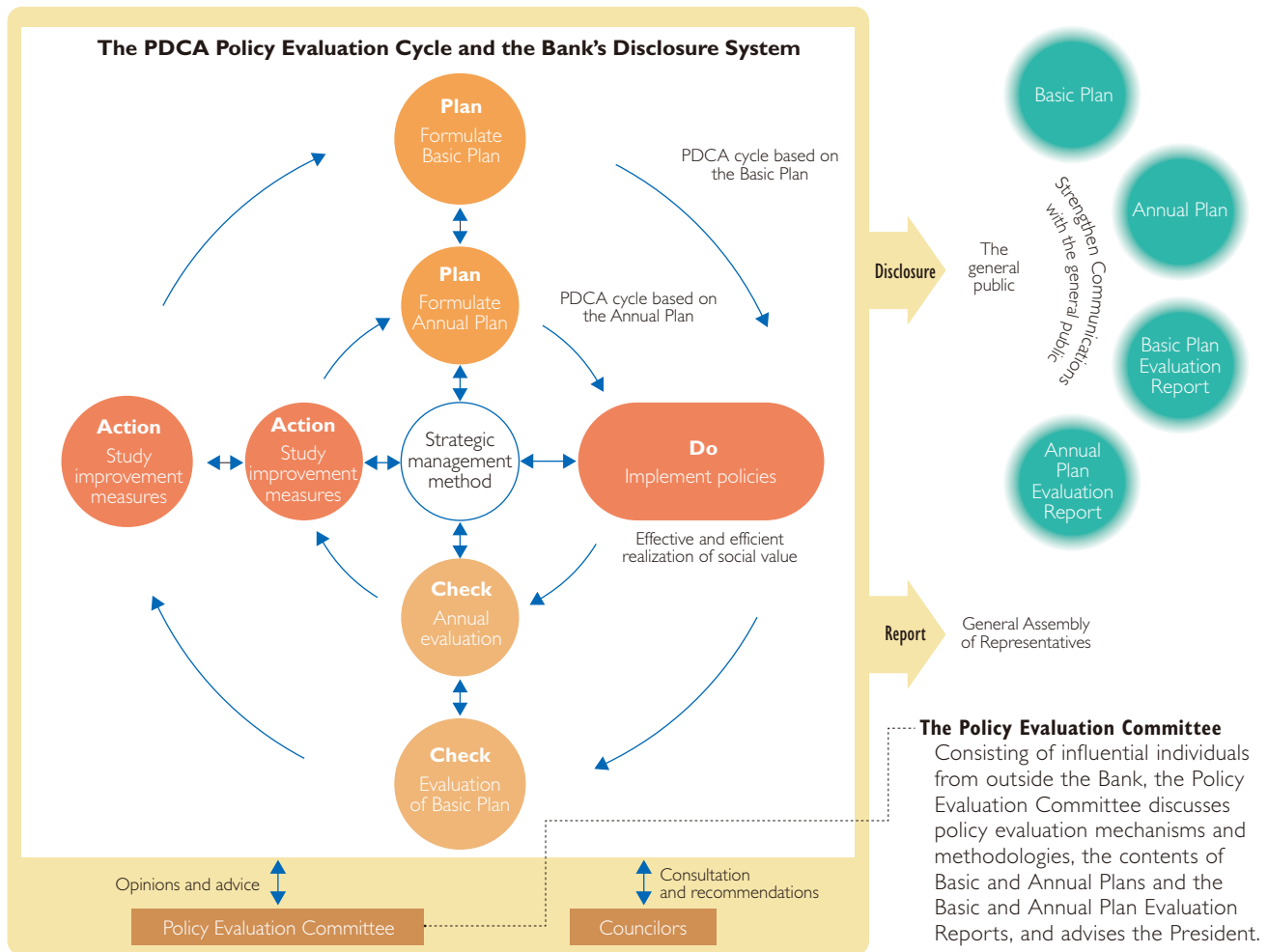
2. The Plan-Do-Check-Action (PDCA) Cycle and the Bank's Disclosure System

The Bank evaluates and reviews the results of the annual plan that has been put into practice.

The Bank also receives objective advice regarding this system from the Policy Evaluation Committee, which is made up of knowledgeable individuals from outside the Bank. Disclosure of the Bank's policy appraisals is carried out through the Bank's Web site and the publication of pamphlets, which promote accountability and communication with the public regarding this process.

(Please refer to the Bank's Web site at <http://www.shokochukin.go.jp/>)

■ Figure 2



■ Release of Policy Appraisal Documents

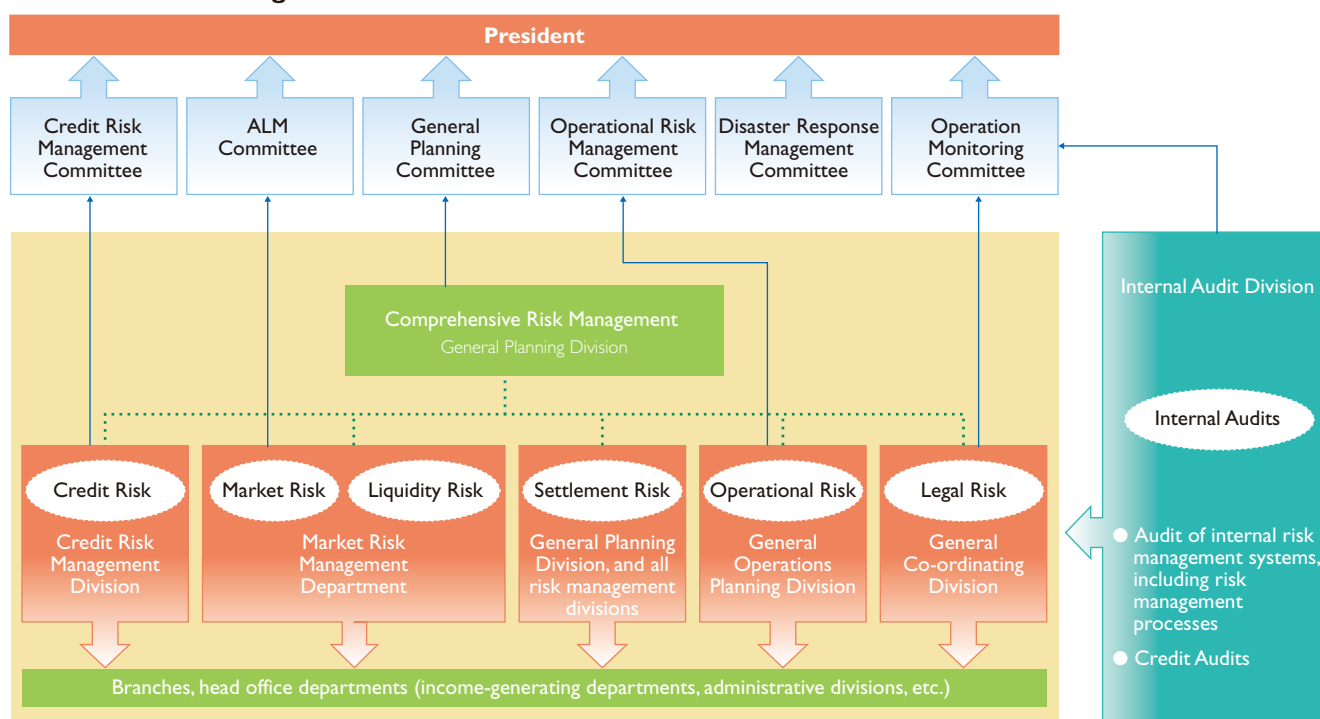
Time	Publication
March 2004	Fiscal 2004-2006 Basic Plan
July 2004	Fiscal 2004 Annual Plan
June 2005	Fiscal 2005 Annual Plan
August 2005	Fiscal 2004 Annual Evaluation Report
June 2006	Fiscal 2005 Annual Evaluation Report Fiscal 2006 Annual Plan
July 2007	Fiscal 2006 Annual Evaluation Report Fiscal 2004-2006 Basic Plan Evaluation Report April 2007-September 2008 Basic Plan Fiscal 2007 Annual Plan

RISK MANAGEMENT

Financial institutions are exposed to diverse and complex risk factors, such as credit risk, market risk, liquidity risk and operational risk. This reflects the liberalization and internationalization of the financial sector, and advances in financial technology. It is critical for financial institutions to manage these risks appropriately in order to maintain their financial soundness while responding to the increasingly diverse and sophisticated needs of their customers.

In response to this environment, the Bank has strengthened its risk management systems by identifying departmental responsibility for the management of specific types of risk. Overall risk management is the responsibility of the General Planning Division, which constantly monitors the other departments to ensure that risk management procedures are being implemented properly. It also works to enhance comprehensive risk management through improved monitoring and management of the Bank's overall risk.

Internal Risk Management Structure



Risk Definitions

Credit Risk	The risk of loss due to the partial or complete loss of asset value, owing to such factors as deterioration in the financial position of the borrower.
Market Risk	The risk of loss resulting from fluctuations in asset values due to changes in interest rates, exchange rates or the prices of marketable securities.
Liquidity Risk	The risk that cash flows will become insufficient due to the inability to secure the required funds (cash flow risk), and the risk that market transactions will become impossible due to market disruptions (market liquidity risk).
Settlement Risk	The risk of loss resulting from failure to settle by the due date (categorized into credit risk, liquidity risk, operational risk and legal risk, according to the cause and characteristics of the problem).
Operational Risk	Operational risk is the risk of loss by financial institutions resulting from administrative failures, accidents or management or staff fraud (administrative risk), the risk of loss by financial institutions due to computer system failures, errors, or inadequacies (system risk, which includes system inadequacy and information security risk stemming from fraudulent third-party acts), and the risk of loss due to serious threats such as leaks, fraudulent use, erroneous operations, and deliberate acts to affect the validity and reliability of essential information assets (information security risk).
Legal Risk	The risk of loss resulting from legal uncertainty about transactions or failure to comply with laws and regulations.

Credit Risk Management

Based on its expertise in working with SMEs, the Bank's credit risk management system is designed to maintain and improve the soundness of its loan assets by setting appropriate lending criteria and ensuring that screening systems are properly applied.

Credit Risk Management System

The Credit Risk Management Division is responsible for overseeing the Bank's credit risk management system. It works to enhance this system by monitoring the Bank's credit portfolio and quantifying risk. Senior management, through the Credit Risk Management Committee, analyzes the credit portfolio from various perspectives, such as by credit rating, business sector and geographical region, as it aims to diversify risk as a means of maintaining and improving the soundness of the Bank's assets.

The Bank undertakes self-assessment of its assets to identify and control credit risk in an appropriate manner and has introduced an internal credit rating system for this purpose. This internal credit rating system uses an optimal set of financial indicators to assess the creditworthiness of SMEs and also incorporates a range of qualitative assessment criteria.

Credit screening is the responsibility of the Credit Group, which works to maintain and enhance the soundness of the Bank's assets through appropriate screening and management. The Bank has also established the Department for Business Restructuring as a specialist unit to provide customers with support for management improvement and revitalization. This department proactively works with customers in this area.

The Internal Audit Division examines this credit risk management process to ensure the system is being applied appropriately.

Screening

Owing to the large impact that external factors—including general economic conditions—can exert on SMEs, the Bank endeavors to carry out screening based on the medium- to long-term outlook for the customer's business. Specifically, the Bank takes into account not only financial factors but also such intellectual assets as management talent and technological capabilities, which do not show up in a firm's financial statements. Through regular visits by the Bank's staff to customers' businesses, the Bank is able to build up its understanding of such factors unique to each customer.

Consequently, in the event that a customer suffers a temporary business slump owing to external factors, the Bank focuses on the future outlook for the customer's core business and cash flows. Through this process, the Bank works closely with the customer's management team to obtain a shared understanding of (1) the customer's current situation, and (2) the best approach for putting the business back on a positive track. This type of management support is a key part of the Bank's mission, and the Bank remains committed to actively cooperating with regional financial institutions, the SME Revitalization Support Councils and other related institutions to fulfill this role.

To further promote the support of its customers, the Bank runs training programs for its staff, which are aimed at enhancing employees' consulting capabilities for SME financing.

Market and Liquidity Risk Management

The Bank has laid down basic policies on market and liquidity risk management, which define organizational structures, authority and management methodologies, and form the basis of strict operational management and control.

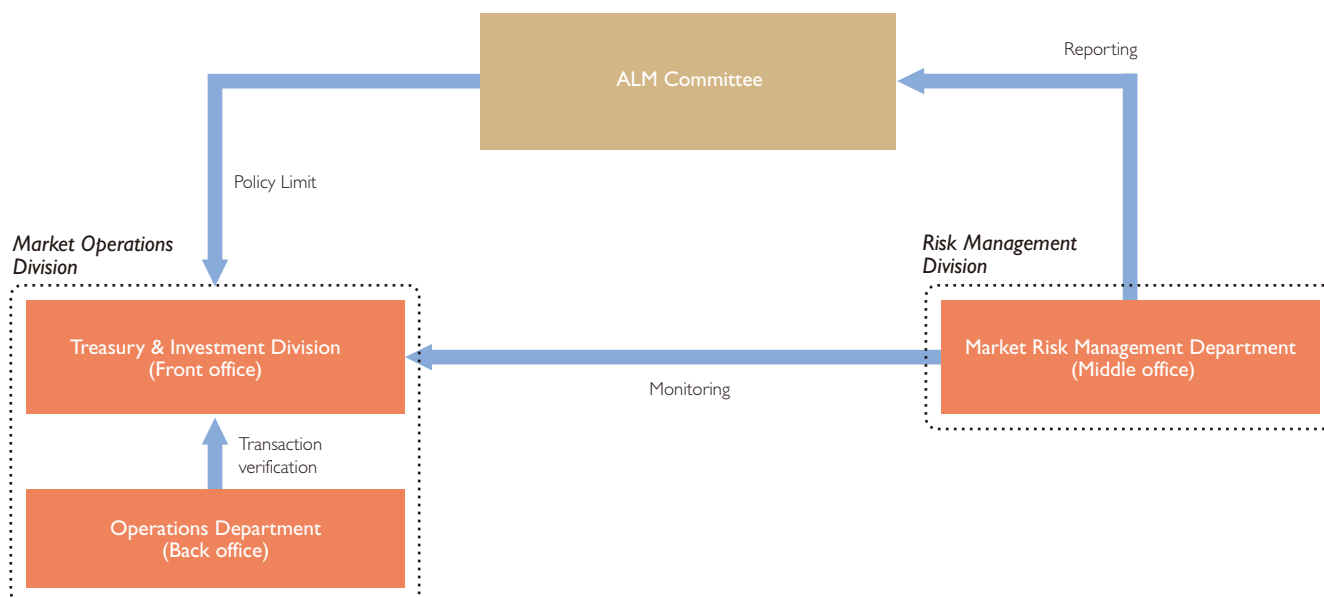
Risk Management Structure

Under the Bank's market risk management structure, market operations are separated into front office and back office departments. In addition, a middle office fulfills a specialist role in managing market risk, with the overall structure providing a system of checks and balances between each of the functions. The middle office monitors operations on a daily basis to ensure strict compliance with the market risk and liquidity risk limits set after deliberation by the ALM Committee. The results of these monitoring activities are reported on a regular basis.

Asset/Liability Management (ALM)

The Shoko Chukin Bank strives for stable earnings while appropriately managing market and liquidity risk. The Bank achieves this balance between profitability and risk control by analyzing its asset and liability portfolios using interest rate forecasts, 10 basis point value and Value at Risk (VaR) methods, and conducting simulations using multiple interest rate scenarios.

Market and Liquidity Risk Management Systems



■ Market Risk (Banking)

(excluding stocks held for strategic purposes and foreign currency operations)

10 basis point value				(Unit: 100 million yen)			
As of March 31, 2006				As of March 31, 2007			
1 year or less	More than 1 year, 5 years or less	More than 5 years	Total	1 year or less	More than 1 year, 5 years or less	More than 5 years	Total
5	(24)	(19)	(38)	5	(31)	(16)	(42)

Value at risk (VaR)		(Unit: 100 million yen)	
As of March 31, 2006		As of March 31, 2007	
196		142	

Note: VaR holding period: 1 month, confidence interval: 99%

GLOSSARY OF TERMS

10 basis point value

This refers to the change in market value if interest rates rise by 0.1%.

Value at Risk (VaR)

VaR statistically calculates the maximum loss on the Bank's portfolio based on past market fluctuations and using a particular period (holding period) and probability (confidence interval).

Operational Risk Management

In its role overseeing operational risk, the General Operations Planning Division is responsible for managing and minimizing operational risk, which includes administrative risk and system risk. It has also established the Basic Guidelines on Operational Risk Management. The Operational Risk Management Committee receives reports on operational risk matters and deliberates on policy relating to risk monitoring and reduction.

The Bank's efforts to mitigate administrative risk through the reduction of administrative errors and omissions include the development of an office manual that clearly stipulates how each operation should be handled, and the installation of various types of office equipment. In addition, Head Office provides operational guidance and in-depth training for managers and staff.

The Bank is bolstering measures aimed at managing system risk, which involves efforts to ensure the stable operation of computer systems. These include the development of back-up systems, building back-up centers, and carrying out breakdown drills.

In the area of information security, which impacts on both administrative and system risk, the Bank has formulated an Information Security Basic Policy, as well as specific standards and management procedures for handling information security. The Bank has also implemented appropriate measures to protect its information assets, including both data and systems, and maintain the security of these assets. These measures involve the classification of assets by importance, as well as risk assessments.

The Bank's contingency plans set clear operational priorities for the safety of customers and employees in the event of disasters or other emergencies.

Improvement of Internal Auditing Systems

To ensure the effectiveness of risk management systems, the Internal Audit Division, which operates independently of all other head office divisions, carries out audits of the Bank's risk management preparedness.

Operational audits inspect the business operations of branches and head office departments and their systems. These inspections are designed to further improve operations and prevent problems, and seek to confirm whether operations are in compliance with laws and internal regulations, and whether self-audits at department and branch level are functioning as expected.

Asset audits look into whether self-assessments, write-offs and reserves are appropriate, and whether credit ratings are accurate.

The results of these internal audits are reported to the Operation Monitoring Committee, which discusses the results and then determines measures to improve business operations and ensure that compliance is rigorously observed.

The Bank is not subject to statutory audit requirements. However, to further bolster the reliability and transparency of its financial statements, from fiscal 2004 the Bank introduced financial audits by an independent auditor.

COMPLIANCE SYSTEMS

Ensuring full compliance is seen as a crucial aspect of the Bank's operations. In all its business operations and other activities, the Bank must comply with all accepted rules and social norms, use disclosure to fulfill its obligation of accountability, and maintain a high degree of transparency.

Thorough Awareness of the Importance of Compliance

The Bank has prepared and distributed to all employees a compliance handbook as a practical guide to the laws and ordinances that must be observed in the pursuit of business activities, and to dealing with problems that may arise. At branch manager meetings, the President regularly emphasizes the Bank's commitment to full compliance. Further efforts to ensure compliance include group training programs and branch-level training programs.

Compliance Structure

(1) Operation Monitoring Committee

The Bank has established the Operation Monitoring Committee—under the chairmanship of the Deputy President—to discuss compliance-related matters. The Committee receives reports on compliance-related matters, and considers improvements to the Bank's compliance system.

(2) Compliance Coordination Division

The General Co-ordinating Division has been designated as the organizational unit responsible for compliance-related planning and management functions. It works closely with other divisions to further develop the Bank's compliance systems.

(3) Compliance Managers and Compliance Officers

Head office divisional managers and branch managers have been designated as compliance managers, and head office and branch staff have been designated as compliance officers to ensure stringent compliance. In addition to conducting regular checks to ensure employees are not contravening laws or regulations, these compliance managers and officers provide guidance and training for employees as necessary. In cases where compliance officers draw up or amend internal regulations, these amendments are examined to ensure that they comply with all laws, ordinances and rules and pose no problems from the viewpoint of social norms. Where necessary, outside specialists are consulted.

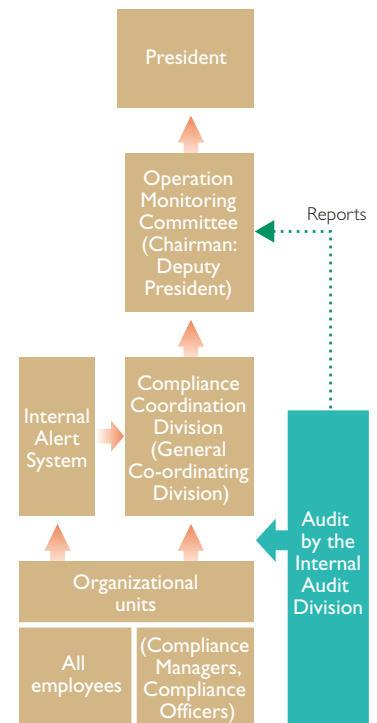
(4) Compliance Inspections

Head office divisions and branches are required to conduct self-assessments to ensure thoroughgoing compliance. The Internal Audit Division, which is independent of other head office divisions, also conducts thorough compliance inspections of head office divisions and branches. Reports on the results of audits are submitted to the Operation Monitoring Committee.

(5) Internal Alert System

The Bank has set up an internal alert system to prevent further escalation and swiftly resolve any compliance problems that occur. The system has been set up so that both executives and employees can easily make reports, with contact points established in the offices of external lawyers and external businesses as well as the General Co-ordinating Division.

■ Compliance Structure



System for the Protection of Personal Information

The Law Concerning the Protection of Personal Information Retained by Incorporated Administrative Agency, which went into effect from April 2005, established the fundamental provisions concerning handling of personal information by independent administrative agencies and other organizations. The intention of this law is to protect the interests of individuals, while ensuring the appropriateness and smooth operation of administrative and business activities of independent administrative agencies and other organizations.

In accordance with this law, Shoko Chukin formulated a statement on its policies concerning the protection of personal information ("Statement on the Protection of Personal Information"), which it has posted on its Web site. Based on a rigorous management system, the Bank will continue to implement measures for the protection of personal information as well as continuously strive to improve its systems in this area.

In the area of inquiries regarding information disclosure and protection of personal information, the Bank accepts various types of request for information disclosure, including requests relating to its system of personal information protection and information disclosure.

System for Information Disclosure

Pursuant to the objectives of the Law Concerning the Disclosure of Information Held by Independent Administrative Institutions, effective from October 2002, inquiry desks have been established at the Bank's 92 domestic branches covering information disclosure and personal information protection. These inquiry desks accept inquiries and requests based on the above mentioned law relating to document disclosure. (Desks have not been established at the Bank's offices, sub-branches or overseas branches.)

In the area of information provision, the Bank provides information as stipulated in the law as well as other voluntary information. The Bank also publishes an outline of its information disclosure on its Web site.

Customer Protection Efforts

Shoko Chukin carefully explains the terms of contracts for all loan, deposit and bond transactions to obtain the customers' understanding and assent. In particular, when introducing customers to products with a risk of principal impairment, the Bank scrupulously complies with the Solicitation Guidelines for the Sale of Financial Products. The Bank has also established the Customer Service Center to handle customers' requests and concerns.

Solicitation Guidelines for the Sale of Financial Products

1. We solicit products appropriately in consideration of the customer's knowledge, experience and assets.
2. We strive to ensure that customers have an adequate understanding of important issues such as the product description and risks associated with it so that the customer can make an independent decision to engage in the transaction.
3. Our primary objective is to earn the customer's trust, and thus avoids solicitation that would cause misperceptions, for instance by providing categorical statements and erroneous information.
4. We do not solicit by phone or visits during times that would inconvenience the customer.
5. We strive to acquire product knowledge so that we may appropriately market to customers in accordance with these solicitation guidelines.

(As of July 1, 2007)

STATEMENT ON THE PROTECTION OF PERSONAL INFORMATION

1. In light of the importance of the handling and protection of personal information provided by customers, the Bank strives for strict compliance with the Law Concerning the Protection of Personal Information Retained by Incorporated Administrative Agency and all other relevant laws, regulations and policies. As well as working for the protection of personal information, the Bank is committed to the ongoing enhancement of its systems in this area.
2. The Bank uses personal information provided by customers only for the purposes the information was originally provided. Where the Bank wishes to use personal information for purposes other than its original purpose, the Bank does so only after receiving explicit agreement from the customers concerned (with the exception of uses recognized under the law). Furthermore, when the Bank receives personal information, it makes clear the purpose for which the information is to be used. The uses of personal information obtained by the Bank are also disclosed on the Bank's Web site.
3. To prevent leaks or fraudulent access or use of personal information held by the Bank, the Bank will build a rigorous data security management system.
4. Each branch of the Bank may receive requests from individuals regarding (1) disclosure of content, (2) correction, and (3) cessation of use; of the personal information held about them. The Bank will respond promptly to such requests in accordance with the law.

For other inquiries and consultations related to personal information handled by the Bank, or to submit an opinion or suggestion on this topic, please contact a branch of the Bank or call on the following telephone number.

INQUIRIES REGARDING PERSONAL INFORMATION: *Information Disclosure and Personal Information Protection Center*

Telephone: +81-3-3246-9326

Hours of operation: Business days; 9:00 a.m. to 3:00 p.m.

The Bank uses personal information provided by customers pursuant to the Law Concerning the Protection of Personal Information Retained by Incorporated Administrative Agency (Law No. 59, May 30, 2003). Such personal information is used for the specific business operations and within the purposes listed below.

Business Operations

- Deposit services, debenture services, exchange services, money exchange services, lending services, foreign exchange services and other related services
- Over-the-counter sales of public bonds, registration services, account management services, insurance sales services and other services as specified under the law that may be provided by the Bank and other related services
- Trust agency services, business matching and merger and acquisition services, mail services, corporate bond investment services, asset securitization services and other related services
- Other services that may be offered by the Bank and other related services (including services that may be authorized in the future)

Purposes

- For opening of accounts for financial products; receipt of applications for financial products and services
- Pursuant to the Customer Identification Law and the Foreign Exchange and Foreign Trade Law, to ascertain whether customers are qualified to use certain financial products and services
- For deposit, debenture and lending services offered by the Bank, to manage maturity periods of debentures, etc., and for other transaction management functions
- Pursuant to the Securities and Exchange Law, for the promotion and sale of marketable securities and financial products and for notification of services offered
- For decisions relating to loan applications and the use of loans
- For decisions regarding suitability and the validity of provision of financial products and services
- For reporting the results of transactions and deposit balances to customers
- To appropriately carry out personal information processing operations performed under contract for other organizations
- To exercise rights or obligations based on agreements with customers or pursuant to laws
- For the research and development of financial products and services through market research, data analysis and surveys
- To convey offers regarding financial products and services through direct mailouts (for customers who wish to have their personal information excluded from use in non-face-to-face sales activities, such as direct mailouts and telemarketing, please contact your Bank branch)
- For service cancellation and to facilitate administrative procedures subsequent to service cancellation
- To facilitate other appropriate communications with customers regarding the Bank's services