

【Points of Attention for Inspections with Use of This Manual】

1. Interpretations and applications of this manual should be in accordance with “The Financial Inspection Basic Guidelines,” issued on July 1, 2005, that specifies the basic concepts of financial inspections.
2. This manual is intended as a guidance for inspectors in their inspections of deposit-taking financial institutions (See 3. below. Hereinafter referred to as “financial institutions.”). Financial institutions, for their part, should endeavor to ensure the soundness and appropriateness of their business based on the principle of self-responsibility and under the leadership of the management by exploiting resourcefulness and creativity to develop policies and internal rules suited to their own scale and nature.

Meanwhile, financial institutions are not necessarily required to meet all of the criteria set forth in the check items of this manual. When using this manual, inspectors should take care not to apply this criteria in a mechanical and undistinguishing manner.

Even a case where a financial institution does not literally meet the requirement of a check item should not be regarded as inappropriate if the arrangements and procedures put in place by the institution are reasonable from the viewpoint of securing of the soundness and appropriateness of its business and are thus deemed as effectively meeting the requirement or as sufficient in light of the institution’s scale and nature. For example, if a financial institution does not have a division described in the checklists of each system, the inspector should review, with due consideration for the institution’s scale and nature, whether its organization is structured in a way to enable the execution of necessary functions and a check-and-balance system.

In this regard, it is necessary for inspectors to sufficiently conduct hearings from and exchange opinions with financial institutions on the occasion of on-site inspections.

3. This manual shall apply to all deposit-taking financial institutions. “Deposit-taking financial institutions” refer to the institutions listed below and other institutions that take deposits. Insurance and securities companies are not included therein.
 - Banks
 - Shinkin Banks and Federations of Credit Associations
 - Credit Cooperatives and Federations of Credit Cooperatives
 - Labor Credit Associations and Federations of Labor Credit Associations
 - Agricultural Cooperatives and Federations of Agricultural Cooperatives
 - Fishery Cooperatives and Federations of Fishery Cooperatives
 - Marine Product Processing Cooperatives and Federations of Marine Product Cooperatives
 - NorinChukin Bank
 - Overseas branches of the above financial institutions (including overseas offices,

subsidiaries and representative offices. However, whether they are subject to inspections under this manual shall be decided on a case-by-case basis in light of the applicable laws and regulations, including local laws, and the like)

- Japanese branches of foreign banks

It should be noted that when inspecting financial institutions that have obtained approval under Paragraph 1, Article 1 of the Law concerning Financial Institutions' Concurrent Undertaking of Banking and Trust Business (hereinafter referred to as "Concurrent Business Law"), inspectors should conduct examination of banking business in accordance with this manual and examination of trust business and issues specific to banking-trust institutions in accordance with the Inspection Manual for Trust and Banking Companies (Supplement of the Financial Inspection Manual for Trust Business), while considering the purpose of the approval of concurrent undertaking of banking and trust business by financial institutions under the Concurrent Business Law and clearly bearing in mind the separation of the banking and trust business.

Also, when inspecting parties conducting transactions with financial institutions or inspecting the holding companies that are the parents of financial institutions, inspectors should make a necessary examination in light of the relevant parts of this manual.

4. The descriptions in this manual are in principle based on the assumption that the manual shall be applied to banks that appoint corporate auditors (establish a board of auditors) under the Company Law. Inspectors should bear it in mind that with regard to some of the check items, certain types of financial institutions may not be legally obligated to conform with the criteria and requirements specified therein.

(1) In the case of a financial institution that has established nominating, audit and compensation committees under the Company Law, inspectors should review with due consideration for the following points, whether the Board of Directors, the committees and executive officers are exercising their authority appropriately.

(i) The authority over business execution rests with executive officers, but not with directors in principle.

(ii) The Board of Directors may delegate the decision-making authority concerning business operations to executive officers by adopting a relevant determination.

(iii) The Board of Directors is responsible for supervising the execution of duties by directors and executive officers.

(iv) The ultimate auditing authority rests with the auditing committee, not with individual auditing committee members. (Auditing committee members appointed by the auditing committee execute the auditing authority on behalf of the committee.)

(2) The cooperative type of financial institutions are required to appoint accounting auditors only in

limited cases.

(3) In the case where an executive director (non-director) assumes the roles and responsibilities that would normally be assumed by a director in charge of a specific business operation, it is necessary to conduct a comprehensive review as to whether the Board of Directors has assigned the officer authority similar in effect to that which would be granted to a director in charge, whether the focus of the responsibility is made clear and whether the Board of Directors sufficiently monitors the execution of the relevant business operation. Based on the findings thereof, the inspector should determine whether the executive officer is performing the roles and responsibilities required for a director in charge as specified in the checklists of this manual.

5. Unless specified otherwise, items expressed in the question form such as “does the institution...” or “is the institution...” refer to requirements that must be met by financial institutions. Meanwhile, items preceded by “It is desirable...” refer to best practices recommended for financial institutions unless specified otherwise. With regard to items accompanied by “for example,” financial institutions are not required to fully comply letter-by-letter with the criteria and requirements specified therein. They are merely examples of items that may be useful for checking whether financial institutions are meeting certain criteria and requirements in a manner befitting the scale and nature of their business.

6. Following are the definitions and use of some of the key terms in this manual

(1) Decisions concerning items specified as the prerogatives of the “Board of Directors” must be made based on substantive debate by the Board of Directors itself. However, this shall not preclude another deliberative body, division or department from discussing draft proposals for decision.

(2) The “Board of Directors or equivalent organization to the Board of Directors” includes, in addition to the Board of Directors, other entities that decide matters concerning corporate management with the participation of senior managers such as a council of managing directors and a corporate management council (hereinafter referred to as the “Council of Managing Directors, etc.”) It is desirable that decisions concerning items specified as the prerogatives of the Board of Directors or equivalent organization to the Board of Directors be made by the Board of Directors itself. In the case where the decision-making authority is delegated to the Council of Managing Directors, etc., it is necessary to make sure that the delegation has been made in a clear manner, that a follow-up review is provided for through the compilation of the minutes of meetings of the Council of Managing Directors, etc. and that a sufficient check-and-balance system is ensured through arrangements such as requiring reports to be made to the Board of Directors and allowing corporate auditors to attend meetings of the Council of Managing Directors, etc.

(3) The “manager” of a division is the senior management officer (including a director) in charge of

that division. The “manager” of a sales branch, etc. is the head of that branch or a senior management officer (including a director) who assumes the same level of work responsibilities as or higher responsibilities than those of the branch head.

- (4) “Internal rules” are rules that specify arrangements on a financial institution’s business in accordance with its corporate management policy, etc. that are applicable within the institution. It should be noted that internal rules do not necessarily have to specify detailed procedures.
- (5) The “marketing and sales division” refers to a division, department, or sales office engaged in sales business. For example, a division involved directly or indirectly in sales or engaged in sales promotion planning is a marketing and sales division.
- (6) The “office (trading, banking) division” is a division or a department engaged in market transactions.
- (7) The “legal checks, etc.,” which includes a compliance check, means, for example, a validation of the consistency and compatibility of internal rules and the legality of transactions and business operations by personnel in charge of legal affairs, a division in charge thereof and in-house or outside lawyers and other experts.
- (8) “Monitoring” refers to not only surveillance but also implementation of specific pre-emptive measures such as issuing warnings.
- (9) The “risk profile” of a financial institution refers to the sum of features of various risks to which the institution is exposed.