

The Shoko Chukin Bank's Governance System

The change in status from that of a government-affiliated financial institution to a special company (a joint-stock company established pursuant to a special act) provides an opportunity for the Shoko Chukin Bank to reinforce and further upgrade its corporate governance structure and systems. At the same time, the Bank is well positioned to maintain its basic role as a financial institution run for SMEs by SMEs under the governance of its shareholders - SME cooperatives and their members - the government, market and relevant laws including the Shoko Chukin Bank Limited and Companies acts. In this context, the Bank will establish boards of directors and Audit and Supervisory Board Member and appoint an independent auditor. The Bank will also establish the Management Advisory Committee made up of select representatives from SME loan recipient companies to ensure that the opinions and voice of its core client base are accurately reflected in the Bank's management, Human Resources Committee made up of representatives from SME loan recipient companies and knowledgeable outside individuals to ensure that the opinions and advices of SMEs regarding the executive appointment are accurately reflected in the Bank's management, and Compensation Committee made up of representatives from SME loan recipient companies and knowledgeable outside individuals to ensure that the opinions and advices of SMEs regarding the directors' compensation and retirement benefits are accurately reflected in the Bank's management.

The Composition and Functions of Corporate Governance Organizations and Systems

A. Board of Directors

As of June 30, 2014, the Shoko Chukin Bank's Board of Directors was comprised of 10 members, two of whom are external directors. The Board of Directors deliberates on and decides important matters pertaining to the execution of the Bank's business activities while at the same time supervising the duties of directors. Through these means, every effort is made to ensure that the Bank's overall operations continue to function in an appropriate and effective manner.

B. Audit and Supervisory Board, Audit and Supervisory Board Members

As of June 30, 2014, the Shoko Chukin Bank's Audit and Supervisory Board was comprised of five members, three of whom are non-standing Audit and Supervisory Board Members. Of the aforementioned four Audit and Supervisory Board Members, three were appointed from outside the Bank. Audit and Supervisory Board Members monitor and audit the execution and performance of each director's duties. Moreover, the Audit and Supervisory Board prepares audit reports, appoints and removes standing Audit and Supervisory Board Members and determines the Bank's overall audit policy.

C. Details of criteria or policy concerning the independence of external directors and external Audit and Supervisory Board Members in selecting them

Not applicable

D. Management Advisory Committee

To ensure that the opinions and voice of its core client base are accurately reflected in the Bank's management, a management advisory committee has been established comprising select representatives from SME loan recipient companies. The Management Advisory Committee provides comments and advice on the Bank's operating activities.

E. Human Resources Committee

Human Resources Committee comprising representatives from SME loan recipient companies and knowledgeable outside individuals, has been established to seek comments and advice in respect of directors appointment.

F. Compensation Committee

The Compensation Committee comprising representatives from SME loan recipient companies and knowledgeable outside individuals, has been established to voice opinions and provide advice on the evaluation of performance with respect to directors' compensation and retirement benefits.

G. Management Meetings

Management meetings attended by the Bank's representative directors including the president and the deputy president are convened to ensure that decisions relating to the Bank's fundamental operations as well as important investment and lending issues are expeditiously and sufficiently deliberated in accordance with the basic policy formulated by the Board of Directors.

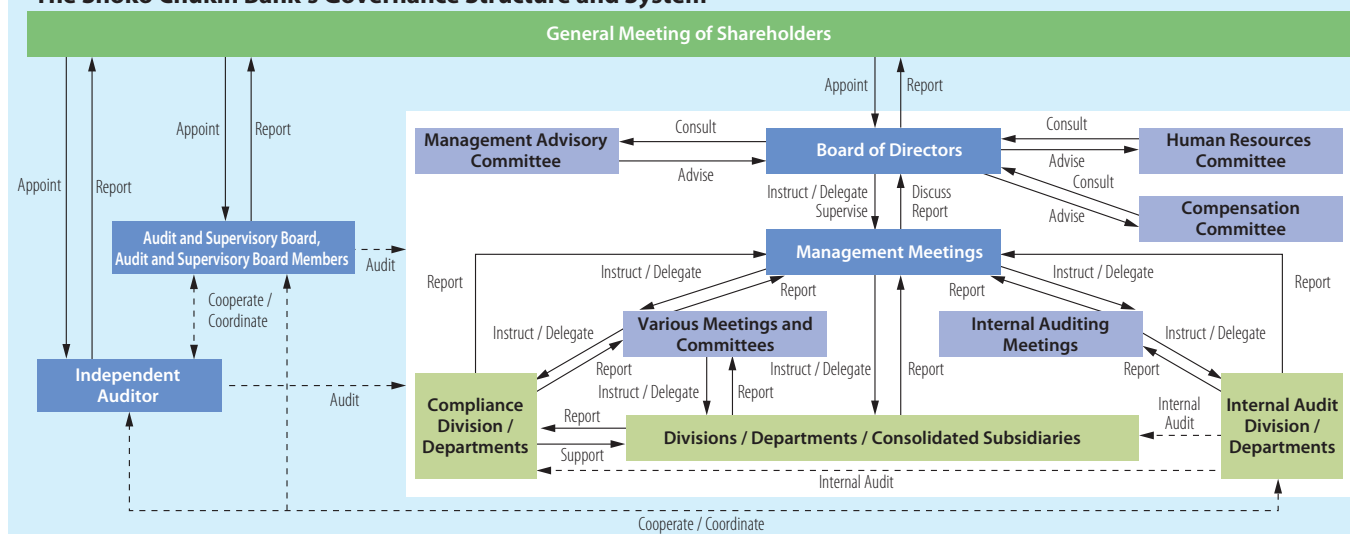
H. Internal Auditing Meetings

To ensure the independence and autonomy of the Internal Audit Division from the departments and divisions subject to audit, and to reinforce the control function, internal auditing meetings are convened under the direct supervision of management meetings. During each internal auditing meeting, attendees discuss and deliberate on matters relating to the Bank's internal auditing system as well as internal auditing plans.

I. Other Meetings and Committees

In addition to internal audit meetings, the Bank convenes and establishes various meetings and committees to deliberate on and discuss issues and proposals put forward during management meetings. These issues and proposals encompass such wide-ranging fields as corporate planning, investment and lending, compliance, CS promotion, credit risk management, support for regional revitalization and promotion of female advancement. As a supplementary structure, these meetings and committees are driven mainly by representative directors including the deputy president.

The Shoko Chukin Bank's Governance Structure and System



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.

Responding to this environment, the Bank continues to bolster its risk management systems by clearly identifying individual risk management departments, further strengthening management capabilities with respect to specific types of risk and delegating to the Corporate Planning Division overall responsibility for monitoring and overseeing risk management.

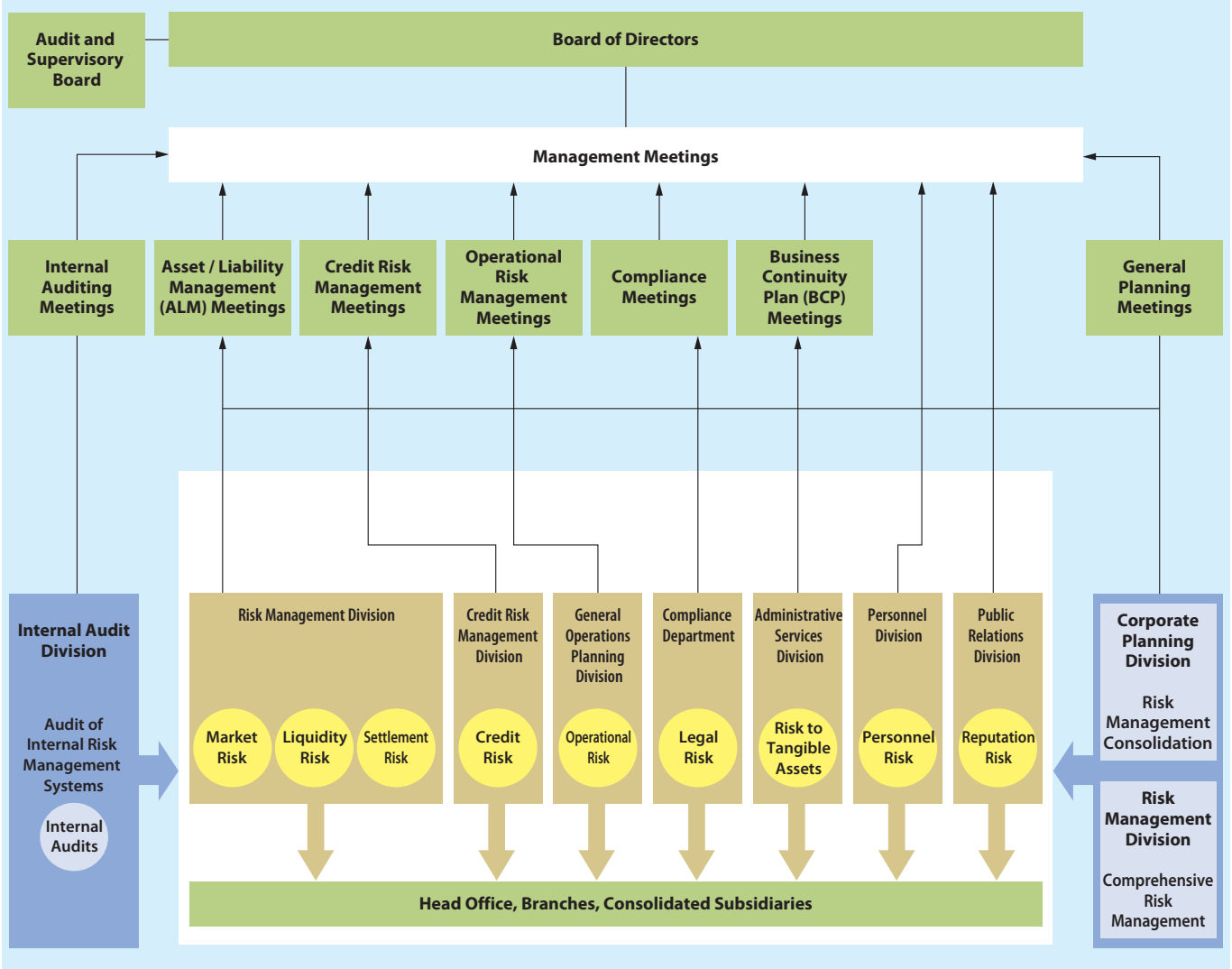
The most important risk management issues are deliberated and decided by the Board of Directors or the Management Meeting. Risk management is conducted with the full interest of

the management team, with regular reports on risk management status, issues, and response measures given to the Board of Directors.

Moreover, in putting into perspective the impact of overall risk based on an assessment of individual categories, the Risk Management Division has been established to oversee risk management on an integrated basis in the context of the Bank's total capital.

The Risk Management Division coordinates the capital-at-risk limit determined by the Board of Directors and periodically submits reports to the Asset/Liability Management (ALM) Meetings and management meetings.

Risk Management Structure and System



Risk Definitions

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 (broadly categorized into credit risk, liquidity risk, operational risk and legal risk, according to the cause and characteristics of the problem).
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.
Operational Risk	Operational risk is the risk of loss by financial institutions resulting from administrative failures, accidents or management or staff fraud (administrative risk, which includes information security risk that does fall within the scope of system 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.
Risk to Tangible Assets	The risk of impairment and damage to tangible assets as a result of disasters and other accidents.
Personnel Risk	Risk occurring because of unjust and unfair human resource management (problems with compensation and dismissals) and discriminatory acts (sexual harassment, etc.).
Reputation Risk	The risk that losses will be suffered due to decline of reputation and the spread of false information.

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 Meetings, 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.

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.

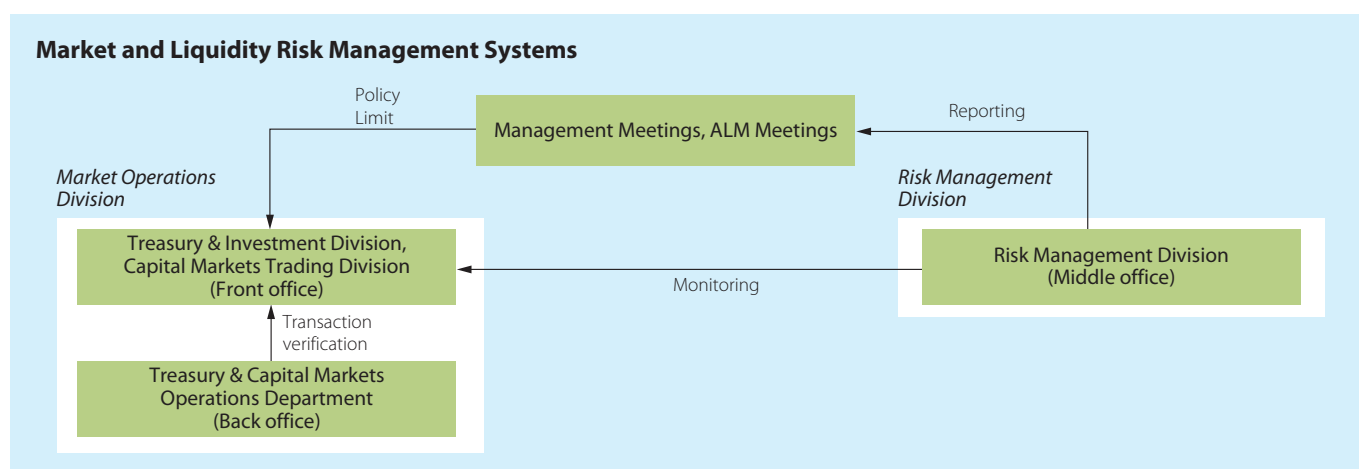
Risk Management Structure

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 Management Meetings and ALM Meetings. 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 Risk (Banking) (Note 1)

Interest sensitivity by fiscal period (10 basis point value) (¥100 million)											
Mar. 31/'12				Mar. 31/'13				Mar. 31/'14			
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	1 year or less	More than 1 year, 5 years or less	More than 5 years	Total
5	(49)	(21)	(65)	2	(23)	(29)	(51)	5	(33)	(26)	(54)

Value at risk (VaR) (Note 2) (¥100 million)		
Mar. 31/'12	Mar. 31/'13	Mar. 31/'14
67	35	89

Notes: 1. Financial products for purposes other than trading, excluding stocks and foreign currency operations.
 2. VaR holding period: 1 month, confidence interval: 99%

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, as it relates to the Bank as a whole. In this context, the Division has formulated the Basic Guidelines on Operational Risk Management.

In addition, the Operational Risk Management Meetings deliberates on matters relating to operational risk. These include efforts to clearly identify risk and to establish countermeasures to ensure their 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. Furthermore, Risk Control Self-Assessment (RCSA) was introduced, whereby the department in charge of operations monitors losses that occur, and also identifies and evaluates

inherent risk. By making improvements based on this evaluation, the Bank strives to reduce risk.

The Bank is bolstering measures aimed at managing system risk, which involves efforts to ensure the stable operation of systems. These include the maintenance of back-up systems, building back-up centers, and carrying out breakdown drills, and periodical auditing of the system by an external professional body.

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, 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 adequacy and effectiveness of the internal control system, the Internal Audit Division, which operates independently of all other head office divisions under the direct control of the President, carries out audits of the Bank's risk management systems, etc.

Operational audits are implemented to ensure that risk management and other processes at branches and head office departments, as well as management system for compliance, customer protection and other factors, are functioning

adequately and effectively. They also make statements for further improvement of internal audit systems.

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

The results of internal audits are reported at internal auditing meetings, and then periodically reported at management as well as Board of Directors' meetings.

The Structure and Systems That Facilitate Reporting to the Audit and Supervisory Board and Audit and Supervisory Board Members by Directors and Officers; Other Structures and Systems That Facilitate Reporting to the Audit and Supervisory Board and Audit and Supervisory Board Members

- (1) Audit and Supervisory Board Members are able to attend meetings of the Board of Directors and management as well as those of individual committees.
- (2) Directors and other officers report to the Audit and Supervisory Board and Audit and Supervisory Board Members in an effective and appropriate manner on all matters prescribed under the law, the status of business execution and relevant peripheral issues.

Crisis Management System

The Bank established the "BCP Basic Guidelines" to set forth responsive measures to be taken by the Bank and all of its officers and employees with respect to disaster prevention as well as a system ensuring the smooth operation of business activities by restoring its functions immediately upon the occurrence of disasters so as to minimize management risk associated with the suspension of business.

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 Shoko Chukin Bank has established the Code of Ethics as its basic policy on compliance. The Bank takes all necessary steps to ensure that Group directors, officers and employees are made fully aware of and understand its content. 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 in 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) Organizations Established to Deliberate on Matters Relating to Compliance

Matters relating to compliance are reported to and deliberated by the Compliance Meetings, which is chaired by a deputy president. Results of the Compliance Meetings' deliberations are reported at management meetings as well as to the Board of Directors. The Board of Directors decides on all matters of particular importance as they relate to compliance including the Compliance and other programs.

(2) The Compliance Coordination Division

The Compliance Department has been designated as the organizational unit responsible for compliance-related planning and management. The Department works closely with other departments and divisions to establish and further develop the Bank's compliance structure and systems.

(3) Compliance Officers and Compliance Managers

Head office divisional managers and branch managers have been designated as compliance officers, and head office and branch staff have been designated as compliance managers to ensure stringent compliance. In addition to conducting regular checks to ensure employees are not contravening laws or regulations, these compliance officers and managers provide guidance and training for employees as necessary. In cases where compliance managers from the head office 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.

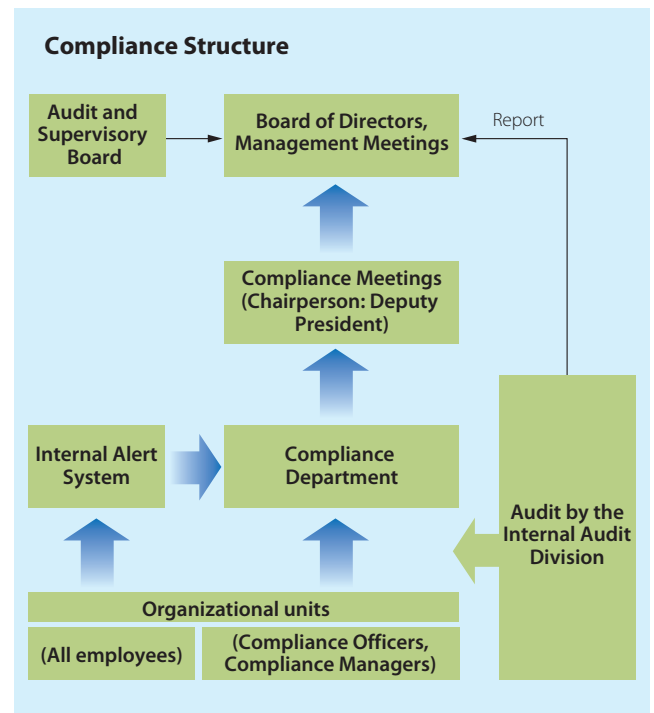
(4) Compliance Inspections

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 Board of Directors.

(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 Compliance Department.



Zero tolerance of Anti-social Forces

As a financial institution, to maintain public confidence and ensure the adequacy and soundness of our business activities, the Bank is required to eliminate anti-social forces from financial transactions.

The Shoko Chukin Bank develops its system aimed at the elimination of anti-social forces by taking initiatives such as

designating the Compliance Department as a coordinating division and assigning a compliance officer associated with in each division/branch, thereby working on to cut off the relationships and eliminate transactions with anti-social forces, in cooperation with external professional bodies including the police and lawyers.

Code of Ethics

1. Ensuring Trust

- (1) As a financial institution run for SMEs by SMEs, the Shoko Chukin Bank provides high-quality, comprehensive and stable services and supports the sustainable growth of its customers. We understand and act on our social responsibility to exercise financial settlement and mediation functions as a financial institution.
- (2) We strive to communicate with all sectors of society through timely and appropriate disclosure and other measures to fulfill our mission and social responsibilities as a financial institution. Furthermore, each one of us appropriately fulfills the role assigned to us in our daily operations, and strives to maintain and earn trust through sound and appropriate operations.
- (3) All officers and employees carry out their jobs in a fair manner and build sound corporate ethics. Moreover, the Bank works to reinforce internal controls through, for instance, its internal management system and risk management system, and ensures that operations are administered according with a sense of self-responsibility inspired by self-discipline.

2. Customer-oriented Operation

- (1) We understand that the growth of our customers is our mission, and also treat our customers cordially, politely and sincerely to ensure their satisfaction.
- (2) We take the customer's point of view to ensure that we provide appropriate services based on the customer's needs and experiences. When offering the Bank's services, we appropriately and thoroughly explain the merits, demerits and risks inherent in the services and move ahead with the transaction only with the customer's full understanding.
- (3) We take the utmost care in managing information entrusted to us by customers, and we manage it appropriately to prevent leaks. The information entrusted to us by customers is only used for the intended purposes, and is never used for purposes other than those intended without the customer's consent.

3. Strict Compliance with Laws

- (1) When carrying out operations as a financial institution, we respect laws and rules by ensuring fair competition, handling customer information with great care, forbidding insider trading and preventing money laundering. We refrain from unsound lending and sales practices that would deviate from social norms, and pursues good business operations.
- (2) In the event that a law or rule is violated, we do not attempt to conceal the event but report it in accordance with established reporting procedures. We strive to resolve the problem quickly and prevent a reoccurrence.
- (3) When purchasing goods and services and ordering systems, the transaction is carried out in accordance with fair market rules and appropriate commercial practices, and we ensure that the Bank's relationships with suppliers are equitable and transparent. In addition, we do not tolerate unfair trading practices such as bid-rigging.

4. Respect for Human Rights

- (1) We respect the rights of all people, beginning with our customers, officers and employees. We respect basic human rights and practice this belief in our daily operations.
- (2) We strive to create a cheerful environment that is free of acts that damage individual dignity such as sexual harassment and abuse of authority, discrimination and bias, and an environment in which individual diversity is respected by all.

5. Zero Tolerance of Anti-social Forces

- (1) The Bank is firmly opposed to anti-social forces such as crime syndicates that threaten order and safety in civil society, and has a zero-tolerance policy toward involvement with such forces.
- (2) We thoroughly confirm personal identities to prevent use of our services in crimes or terrorism. We do not overlook transactions suspected of criminality or terrorism or transactions with unnatural features, but respond appropriately by reporting suspicious transactions; in addition, we endeavor to prevent money laundering.

Addressing the Financial Alternative Dispute Resolution System

The Financial Alternative Dispute Resolution (ADR) System (a system for out-of-court resolution of disputes in the financial field) was launched on October 1, 2010. The operational management system and internal regulations of the Shoko Chukin Bank were developed in order to deal with complaints from customers and to resolve disputes with customers in a fair and appropriate manner. Details can be found on our website or in our brochures.
