

The Shoko Chukin Bank's Governance System

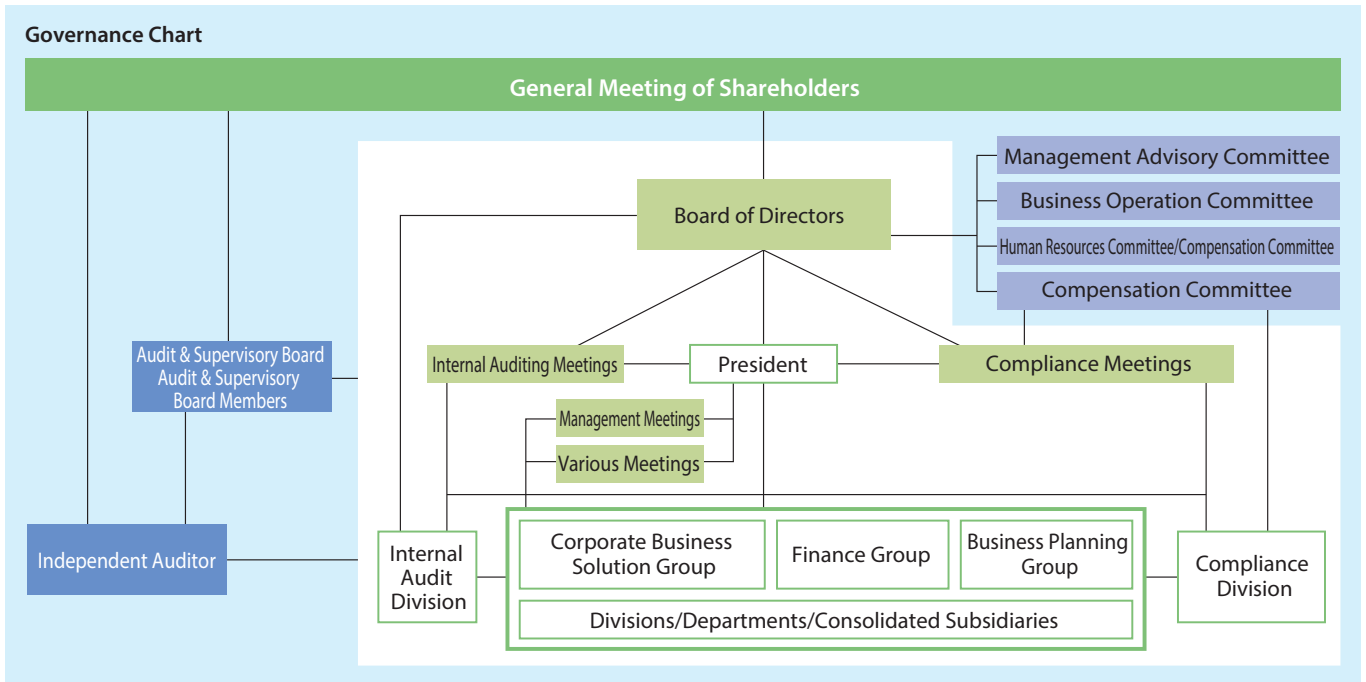
With the change in status from that of a government-affiliated financial institution to a special company (a joint-stock company established pursuant to a special act), the Bank established the Board of Directors and Audit & Supervisory Board and appointed an independent auditor under the governance of its shareholders SME cooperatives and their members-the government, market and relevant laws including the Companies Act and the Shoko Chukin Bank Limited Act. The Bank also established the Management Advisory Committee made up of select representatives from SME loan recipient companies to ensure that the opinions and voices of its core client base are accurately reflected in the Bank's management, Human Resources Committee made up of external directors, representatives from SME loan recipient companies and knowledgeable outside individuals to ensure that the opinions and advices of SMEs regarding executive appointment are accurately reflected in the Bank's management, Compensation Committee made up of external directors, representatives from SME loan recipient companies and knowledgeable outside individuals to ensure that the opinions and advices of SMEs regarding directors' compensation and retirement benefits are accurately reflected in the Bank's management, and Compliance Committee as an advisory body regarding compliance in general, as it works to further reinforce and update its corporate governance structure and systems, while maintaining its basic role as a financial institution run for SMEs by SMEs.

In addition, to establish a new business model, the Bank has renewed its management structure by appointing external directors to ensure they account for a majority of directors. The Bank will improve the functions of the Board of Directors, especially by strengthening it through development of reporting and support system for the external directors, as well as through the implementation of active discussions at the Board of Directors' meetings multiple times.

The Composition and Functions of Corporate Governance Organizations and Systems

- A. Board of Directors
As of June 30, 2019, the Shoko Chukin Bank's Board of Directors was comprised of seven members, four 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 and executive officers. 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 & Supervisory Board, Audit & Supervisory Board Members
As of June 30, 2019, the Shoko Chukin Bank's Audit & Supervisory Board was comprised of four members, including non-standing Audit & Supervisory Board Members. Of the aforementioned four Audit & Supervisory Board Members, three were appointed from outside the Bank. Audit & Supervisory Board Members monitor and audit the execution and performance of each director's duties. Moreover, the Audit & Supervisory Board prepares audit reports, appoints and removes standing Audit & 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 & 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, knowledgeable outside individuals, and external directors 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, knowledgeable outside individuals, and external directors, has been established to voice opinions and provide advice on the evaluation of performance with respect to directors' compensation and retirement benefits.
- G. Business Operation Committee
In order to ensure that the advices regarding the review of status to ensure appropriate competitive relations with other operators and the principle of diverse collaboration and cooperation with regional financial institutions is reflected in the Bank's management, the Business Operation Committee has been established.
- H. Compliance Committee
In order to verify countermeasure policies and other matters related to individual cases such as misconduct, and to provide the Compliance Division/Departments with guidance and checks, as well as to grasp the occurrence/response status of cases related to compliance, and to provide advice on general matters regarding the appropriateness of the execution of duties at the Compliance Division/Departments, the Compliance Committee including external lawyers has been established to seek comments and advice.
- I. Management Meetings
Management meetings attended by the President and Executive Officer, Deputy President and Executive Officer, and other officers are convened as a consultative organization to deliberate on and discuss issues and proposals to be put forward to the Board of Directors, and for certain matters to be decided by the President and Executive Officer.
- J. Internal Auditing Meetings and Compliance Meetings
Based on the basic policy formulated by the Board of Directors, Internal Auditing Meetings and Compliance Meetings have been established as bodies to discuss and decide on matters related to internal audits and compliance delegated by the Board of Directors, respectively.
- K. Other Meeting
In order to support efficient business execution, various meetings concerning matters such as investment and lending, CS promotion, and credit risk management, etc. have been established.

Governance Chart



The Board of Directors, the majority of which is comprised by external directors, has established the Compliance Meetings and Internal Auditing Meetings under the immediate control of the Board of Directors, in order to share and consider detailed information regarding compliance and internal audits, with the aim of strengthening the functions of the Board of Directors.

In addition, the Compliance Committee has been established as an organization to verify countermeasure policies and other matters related to individual cases such as misconduct, and to provide the Compliance Division/Departments with guidance and checks, as well as to review matters concerning the appropriateness of the execution of duties by the Compliance Division/Departments.

The system and function of the Internal Audit Division have been strengthened by ensuring independence, reviewing auditing methods based on a risk-based approach, and allocating audit resources mainly to areas with higher risks.

Furthermore, in order to contribute to improving the corporate value of SMEs from a truly customer-oriented viewpoint, the Bank reorganized its structure based on support for business offices, and established the Management Group.

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.

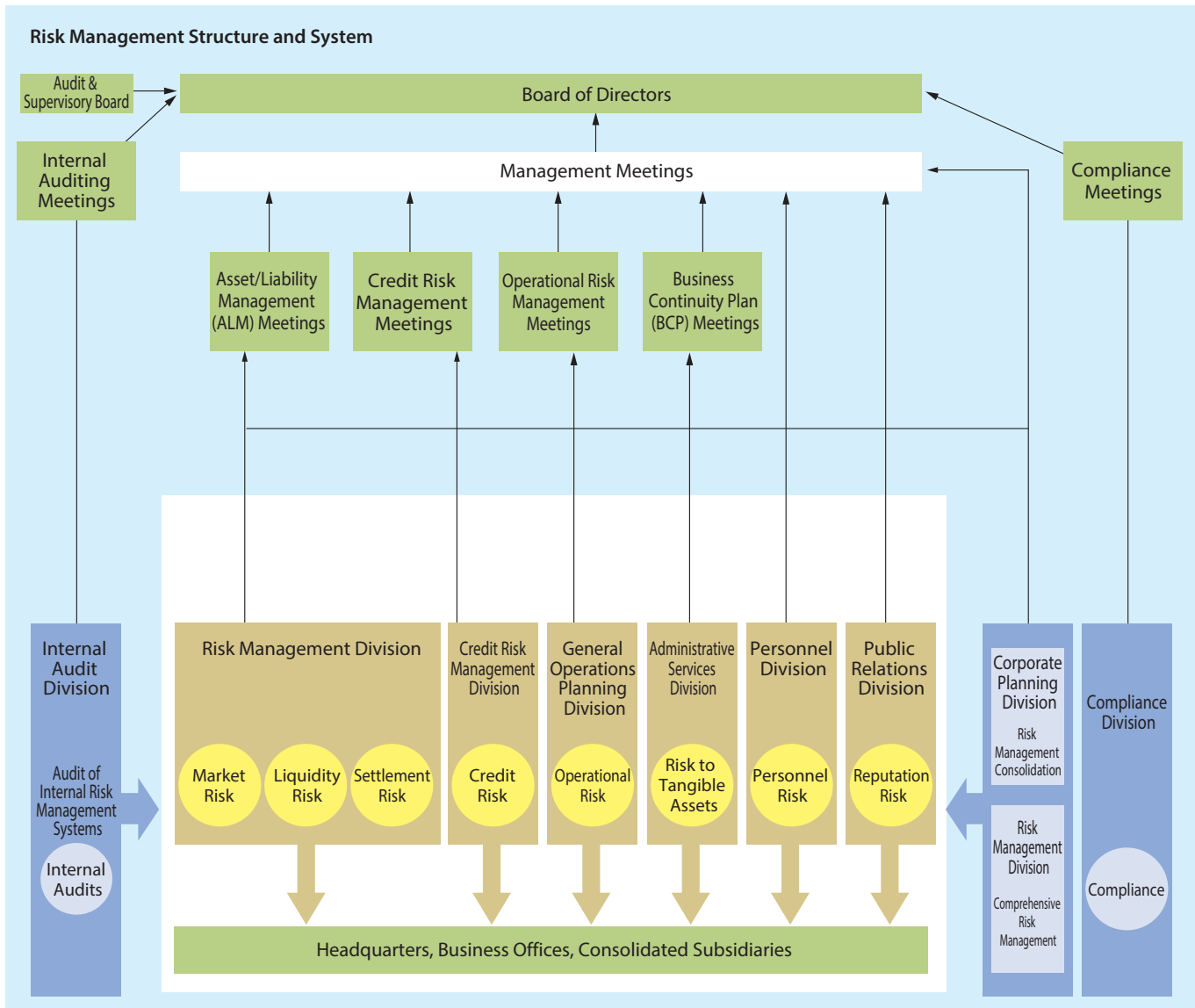
Responding to this environment, the Bank continues to bolster its risk management systems by clearly identifying individual risk management departments, further strengthening management capabilities with respect to specific types of risk and delegating to the Corporate Planning Division overall responsibility 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 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 Finance 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 Corporate Support Division 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 is making efforts to fully understand customers’ businesses, including not only financial factors but also management talent and technological capabilities, which do not show up in a firm’s financial statements.

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 based on an appropriate assessment of business potential 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 their ability to make proposals for solving issues.

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.

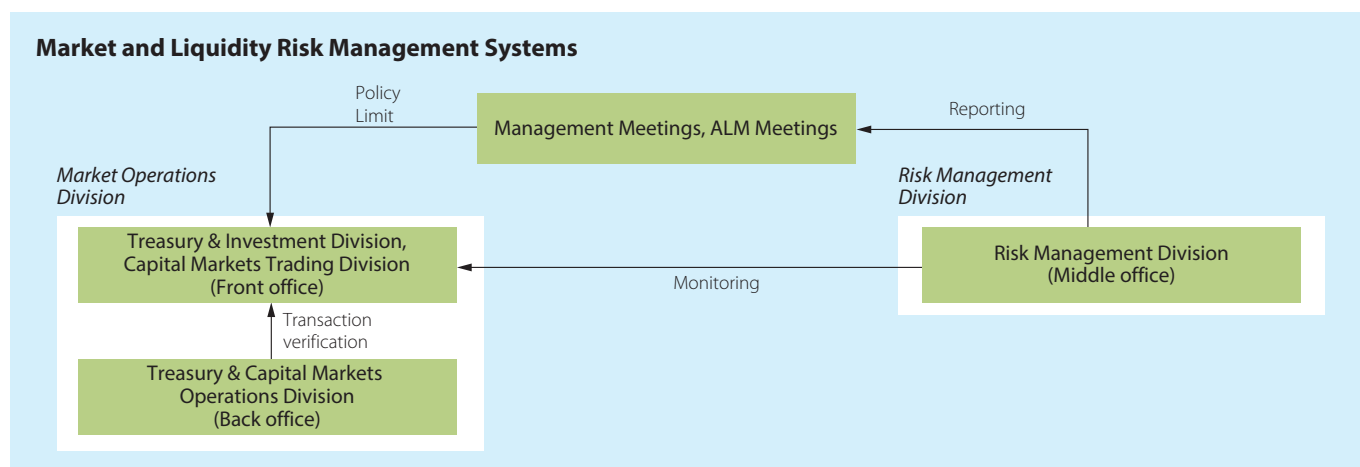
Risk Management Structure

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 VaR (Value at Risk) methods, and conducting simulations using multiple interest rate scenarios.



Market Risk (Banking) (Note 1)

10bpv												(¥100 million)
Mar. 31/'17				Mar. 31/'18				Mar. 31/'19				
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	
7	(27)	(12)	(32)	8	(32)	(37)	(60)	8	(22)	(40)	(53)	

VaR (Note 2)			(¥100 million)
Mar. 31/'17	Mar. 31/'18	Mar. 31/'19	
108	139	123	

Notes: 1. Financial products for purposes other than trading, excluding stocks and foreign currency operations.
 2. Historical simulation method, observation period: 5 years, 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, carrying out breakdown drills, periodical auditing of the system by an external professional body, and establishment of a cyber security management system, including technological measures against cyberattacks, etc.

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 Headquarters divisions under the direct control of the President and Executive Officer, carries out audits of the Bank's risk management systems, etc.

Operational audits are implemented to ensure that risk management and other processes at business offices and Headquarters 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 or Management Meetings, and then periodically reported at 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 as well as Management Meetings and 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 Shoko Chukin 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 has established and distributed to officers and employees a Compliance Manual summarizing the Code of Ethics, the action standards for putting the Code in practice, and the laws and ordinances that must be

observed in the pursuit of business activities. Furthermore, specific initiatives to raise compliance awareness include group training programs as well as regular branch-level training programs, in order to thoroughly ensure compliance.

Compliance Structure

Compliance Committee

Delegated by the Board of Directors, the Compliance Committee has been established as an organization to provide the Compliance Division/Departments with guidance and checks, and to provide advice regarding general matters concerning compliance.

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 President and Executive Officer. Results of the Compliance Meetings' deliberations are reported to the Board of Directors. The Board of Directors makes decisions on important compliance matters such as compliance-oriented programs.

The Compliance Coordination Division

- (1) The Compliance Division 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.
- (2) In the Compliance Division, the Area Compliance Officer has been assigned to grasp the degree of understanding of compliance and give instructions on site.

Organizational units

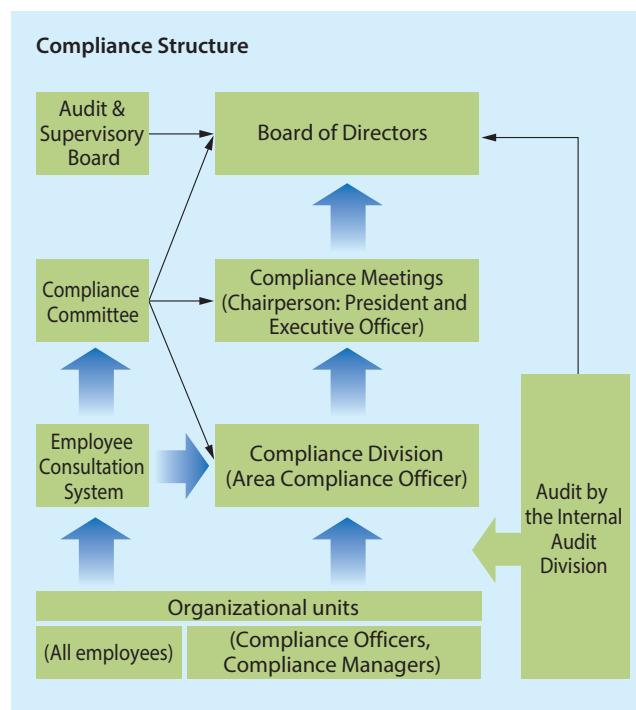
Headquarters divisional managers and business office managers have been designated as compliance officers, and Headquarters and business office staff have been designated as compliance managers to ensure stringent compliance. In addition to conducting regular checks to ensure employees are not contravening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

Compliance Inspections

Headquarters divisions and business offices are required to conduct self-assessments to ensure thoroughgoing compliance. The Internal Audit Division, which is independent of other Headquarters divisions, also conducts thorough compliance inspections of Headquarters divisions and business offices. Reports on the results of audits are submitted to the Board of Directors.

Employee Consultation System

The Bank has set up the employee consultation system (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 consultation contacts established in the offices of external lawyers and external businesses as well as the Compliance Division.



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 Division as a coordinating division and assigning a compliance officer associated with in each organizational unit, 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 and Code of Behavior

1. Ensuring Full Compliance

The Shoko Chukin Bank is strictly compliant with all laws, regulations and rules, and always acts with a high sense of morality and ethics, in order not to violate social norms.

[Code of Behavior]

- (1) We understand that there is a possibility of misconduct for every single person and in any type of business operations, and always engage in business with the prevention of misconduct in mind.
- (2) We correctly understand provisions and rules, and conduct business without omitting procedures. In addition, we do not interpret provisions and rules arbitrarily and conveniently with vague conjecture.
- (3) The Headquarters prepares understandable notifications and manuals, and makes improvements and reviews, as necessary.
- (4) We hold compliance review meetings on a regular basis and conduct repeated training sessions as well as discussions to improve the normative consciousness.

2. Attitude Toward Customers

We constantly return to the starting point, being a comprehensive financial institution solely for SMEs, and give primary consideration to customer trust and satisfaction.

[Code of Behavior]

- (1) We work close to, and strive to build relationships with our customers.
- (2) We deepen dialogue with our customers, understand their businesses, and make efforts share issues with them.
- (3) We work to provide solutions to solve our customers' issues.
- (4) Our Offices, in cooperation with Headquarters, respond promptly to our customers' needs.

3. Responsibility to Society

As a member of a financial institution, a public institution that must maintain transparency, and a member of a local community, we are always aware of our social responsibility to act fairly and faithfully.

[Code of Behavior]

- (1) We are always aware that each behavior of every employee is regarded as the Shoko Chukin Bank's behavior, and act fairly and faithfully.
- (2) We collaborate and cooperate with local governments and regional financial institutions and seek to contribute to local community.
- (3) If we discover misconduct by other employees, we do not turn a blind eye, but promptly report such behavior to our superiors or the employee consultation contact.
- (4) The superiors who receive reports regarding misconduct report such incidents to Headquarters, without concealment.
- (5) We take a resolute stance against anti-social forces and organizations, and sever any relationship with them.
- (6) We strive to prevent the products and services of the Shoko Chukin Bank from being used for money laundering or financial support for terrorist activities.

4. The Organization We Aim to Be

We respect everyone's human rights and the diversity, and strive to create a workplace with an open atmosphere, and with no harassment or discrimination.

[Code of Behavior]

- (1) We eliminate harassment to create a workplace where opinions and discussions can freely take place.
- (2) If we have any troubles, we seek consultation, not being saddled with them.
- (3) We actively speak to anyone who appears to be in trouble.
- (4) If we have difficulties in consulting with our superiors or colleagues, we consider consulting with the Area Compliance Officer or the employee consultation contact.
- (5) Superiors always pay attention to whether their subordinates are in trouble, always listen to them, and actively speak to them.
- (6) The Headquarters listens to the opinions of business offices with sincerity, and responds promptly and faithfully.

■ 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.
