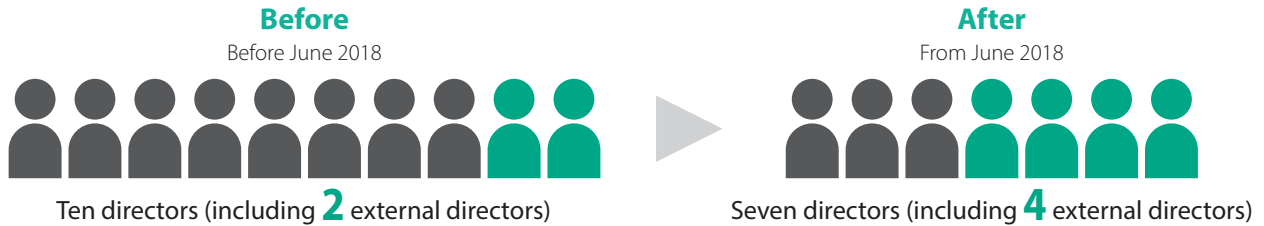


The Shoko Chukin Bank's Governance Reform

We changed our management structure in 2018 to a Board of Directors with a majority of external directors to monitor operation

To establish a new business model, the Bank renewed its management structure in June 2018, 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.



I. Our Fundamental Approach to Corporate Governance

In order to ensure our governance system can support our desired business model, we have adopted a management structure that appoints external directors to ensure that they account for a majority of directors. We are working to strengthen the Board of Directors functions by encouraging more vigorous discussions at Board of Directors meetings. Furthermore, to clearly separate the supervisory and execution functions, we have forged an execution system by introducing mandated executive officers and reviewing

various committees that report to the Board of Directors. In addition, in order to strengthen our internal management system, we have placed the departments responsible for internal audit and compliance under the direct control of president (representative director) and established a framework that enables the representative director to obtain a swift and accurate grasp of any pertinent information.

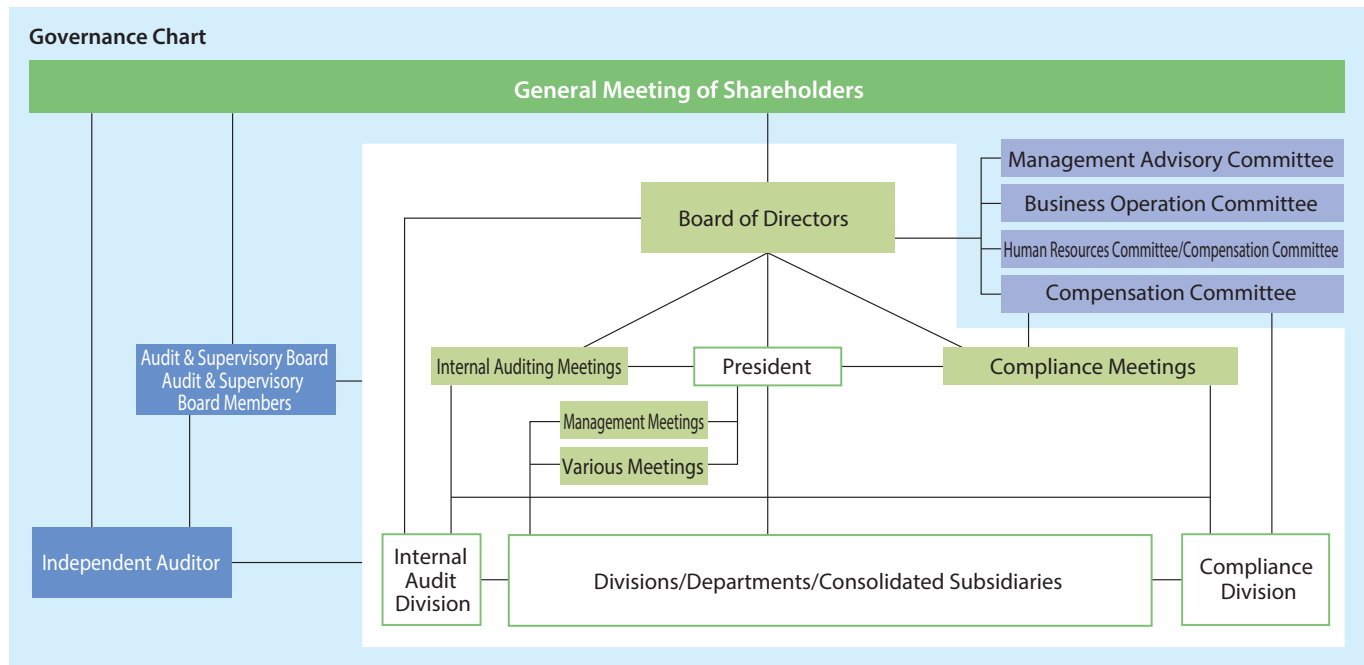
II. Corporate Governance Framework

■ Board of Directors

The Board of Directors is 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.

■ Audit & Supervisory Board, Audit & Supervisory Board Members

The Audit & Supervisory Board is 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.



Compliance

Restoring Compliance Awareness and Strengthening Efforts to Prevent Fraud

■ Determined reestablishment of compliance in wake of misconduct in crisis-response operations

Regarding the misconduct announced in 2016 in our crisis response operations, we would like to once again offer our sincere apology for the considerable inconvenience and concern caused to our business partners, shareholders, and the general public.

In light of that incident, we have conducted a fundamental review of our compliance, business management, and internal management systems in order to prevent the future occurrence of misconduct or improper business operations. Officers and employees of the Bank share a deep sense of remorse and are determinedly working together to ensure that such misconduct never happens again.

■ Summary of misconduct case in crisis response operations, etc.

The Shoko Chukin Bank received a second Administrative Order on October 25, 2017 from the Ministry of Economy, Trade and Industry, the Ministry of Finance, the Financial Services Agency, and the Ministry of Agriculture, Forestry and Fisheries of Japan, due to the widespread occurrence of misconduct, including falsification of the requisite documents for screening of the eligibility requirements for crisis response operations, in addition to inappropriate business operations in other areas.

In order to clarify the details of these cases of misconduct, the Bank conducted a full investigation of all 220,000 cases of crisis response loans. The results revealed 4,637 incidents of misconduct by 447 employees at 97 business offices (out of a total 100 domestic business offices). (Published the Investigation Report on October 25, 2017, and results of additional investigation on March 26, 2018. If any misconduct, including falsification is discovered through an internal audit or whistleblowing, it will subsequently be announced under the advisory and guidance of the Compliance Committee. The above counts and numbers of individuals reflect the announcements made up to September 2020.)

The four fundamental causes of the incident were as below. We thoroughly re-examine the Bank's compliance with laws and regulations, management system, internal management system, etc., in order to prevent the occurrence of any misconduct or inappropriate business operations, including main content of the business operations improvement order.

■ Fundamental causes of the incident

- A lack of internal control and excessive pressure for business performance in crisis response operations
- The use of crisis response loan facilities as a dominant tool
- The attitude of the Bank's Headquarters and management, as well as a decline in compliance awareness that led to misconduct; and
- A lack of governance

■ Main content of the business operations improvement order

- 1 Clarification of the responsibilities of the Bank's officers and employees during the period from time the incident occurred to the present;
- 2 Creation and implementation of an in-depth recurrence prevention plan, which includes measures to strengthen audit functions and ensure appropriate organizational management;
- 3 Development and implementation of a sustainable business model based on the Bank's purpose of complementing private-sector business; and,
- 4 Construction of the Bank's new operational and management system, including strengthening of the rights and privileges of the Board of Directors and employment of external human resources.

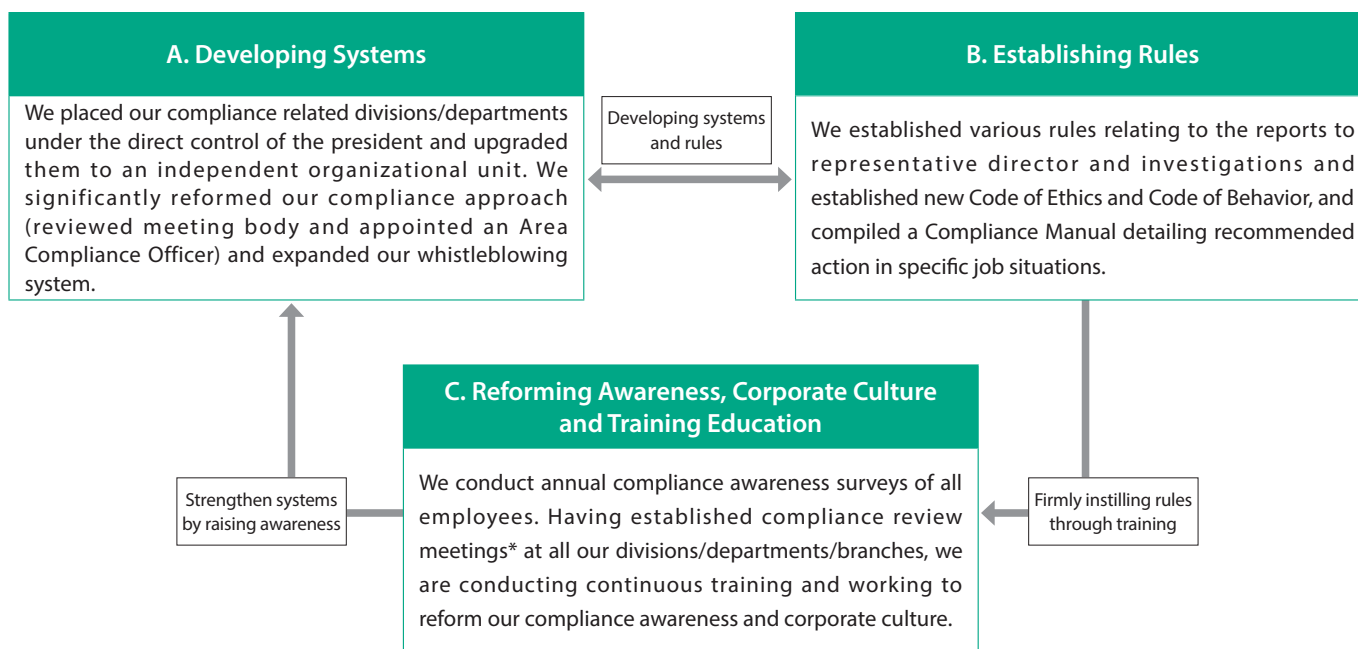
Status of Compliance System Development

Initiatives to Develop Compliance Systems

The Shoko Chukin Bank recognizes that the four fundamental causes of the misconduct in the past were: (1) a lack of internal control and excessive pressure for business performance in crisis response operations; (2) the use of crisis response loan facilities as a dominant tool; (3) the attitude of the Bank's Headquarters and management, as well as a decline in compliance awareness that led to misconduct; and, (4) a lack of governance.

Based on that recognition, we review our approaches as detailed below and conduct consistent and effective compliance-related training. Going forward, we will continue our unrelenting efforts to prevent the memories of the misconduct from fading, to raise each and every employee's compliance awareness, and to become a fraud-free organization.

Three Initiatives to Rebuild Organization After the Misconduct Incident

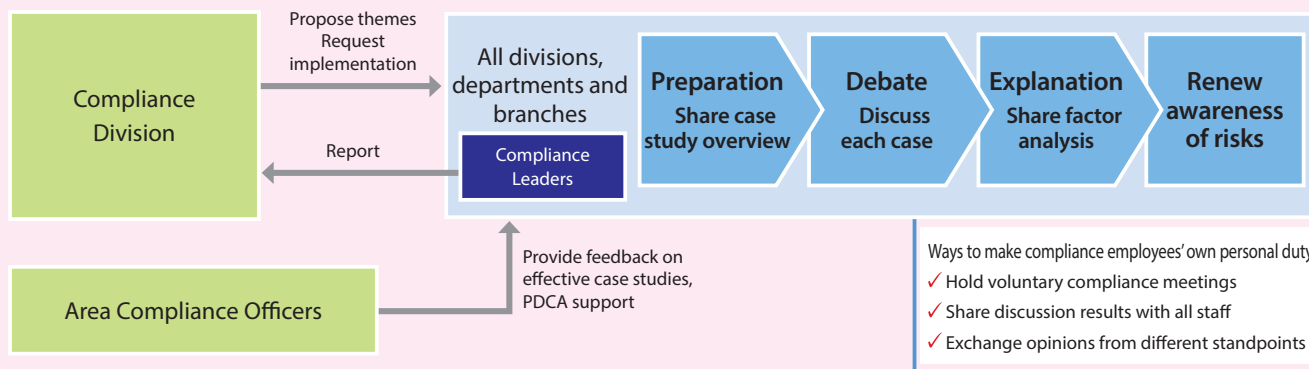


Systems to Ensure Sound Business Operations

*Framework of the Compliance Review Meeting

We have established compliance review meetings at all our divisions, departments and branches. Compliance review meetings are regularly held in order to help every employee comprehend the importance of compliance and commit to compliance as a personal duty, and to enable employees to consider compliance before taking any action.

We have also appointed Compliance Leaders who are responsible for compliance management in every division, department and branch. Area Compliance Officers support this framework and consistently strive to improve the effectiveness of the framework.



A. Establishing Compliance-related Meetings and Divisions Developing Systems

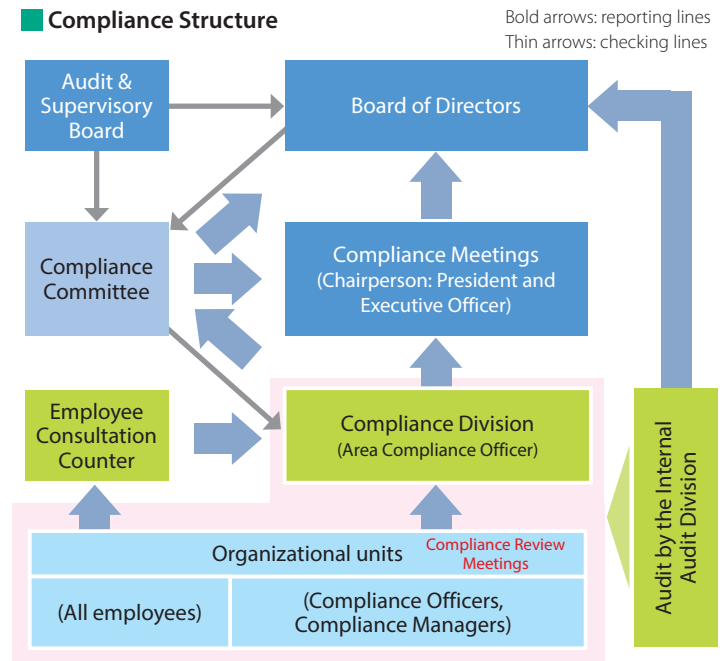
Developing Systems Following the Misconduct Discovery From April 2017

- Upgraded the Compliance Meeting to a management meeting (chaired by the President and Executive Officer)
- Upgraded the Compliance Division to an organizational unit to ensure independence and strengthen business execution framework
- Reestablished the Compliance Committee to verify response to individual cases and provide guidance and restraint
- Expanded our employee consultation contact (a whistleblowing system)
- Appointed Area Compliance Officers (ACOs) to provide conduct inspections and provide advice and guidance on compliance frameworks
- Had all executives and employees sign a compliance pledge to uphold social regulations and all other rules and strive to restore trust

From June 2018

- Moved the Compliance Division under the direct control of the President and Executive Officer

Compliance Structure



B. Establishing Various Manuals and Rules Establishing Rules

From October 2017

- Revised compliance regulations, etc. (established a system for prompt reporting to the Compliance Committee and Representative Director, etc. in the event of a serious incident and rules for explaining investigations and reporting to the Compliance Committee and Board of Directors)

From June 2018

- Revised compliance implementation guidelines, established the role of Compliance Committee, response to scandals and other events, and measures, etc. that require the Compliance Division to rectify business operations
- Established the Code of Ethics, the Code of Conduct, and the Compliance Manual. Illustrated recommended actions, etc. in specific situations

● **The full text of the Shoko Chukin Bank Code of Ethics and Code of Behavior is available on our website.** ▶▶▶ <https://www.shokochukin.co.jp/english/about/company/introduction/>



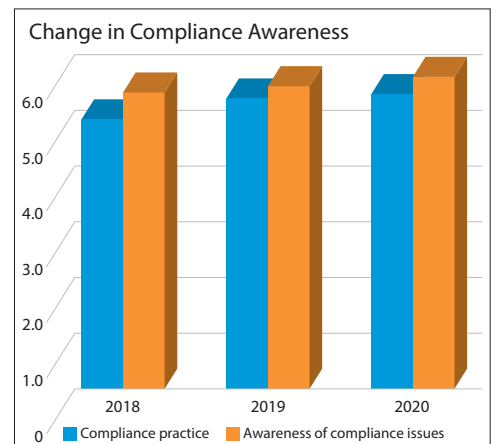
C. Getting Employees to View Compliance as a Personal Duty Awareness, Corporate Culture, Education

From July 2017

- Conducted consistent compliance training tailored to each employee level and position in all group training sessions
- Conducted consistent compliance training for executives.

From January 2018

- Formulated compliance revitalization program and established a framework for improving compliance awareness and consistently conducting compliance training, etc.
- Established compliance review meetings at all divisions, departments and branches, and ensured consistent implementation
- Established the Compliance Leader system to help instill and entrench compliance considerations
- Conducted compliance awareness surveys (annual surveys designed to obtain an objective grasp of the level of compliance awareness among all employees and pinpoint issues)



*The surveys were conducted by having respondents rate their compliance from 1 to 7 (the higher the number the more positive the action).

Risk Management

I. Basic Policy for Risk Management

In order to sufficiently exhibit our role as a financial institution specializing in SMEs, the Shoko Chukin Bank thoroughly understands the importance of solid risk management and seeks to accurately grasp and manage risk by systematically defining the type of risks that should be recognized when executing business, their content, and the way they should be managed.

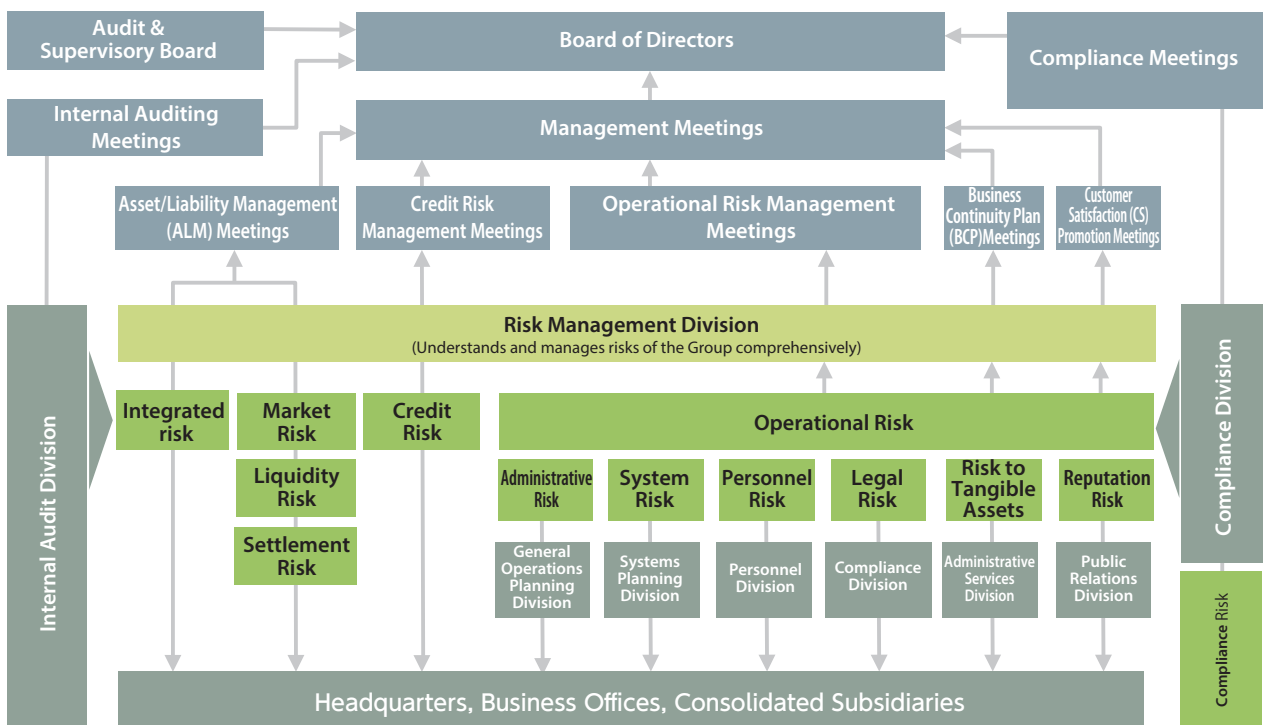
II. Risk Management Structure

Financial institutions are exposed to increasingly 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 of financial and IT technologies. 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 by clearly identifying individual risk management departments, further strengthening management capabilities with respect to specific types of risk and delegating to the Risk Management 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.

Risk Management Structure and System

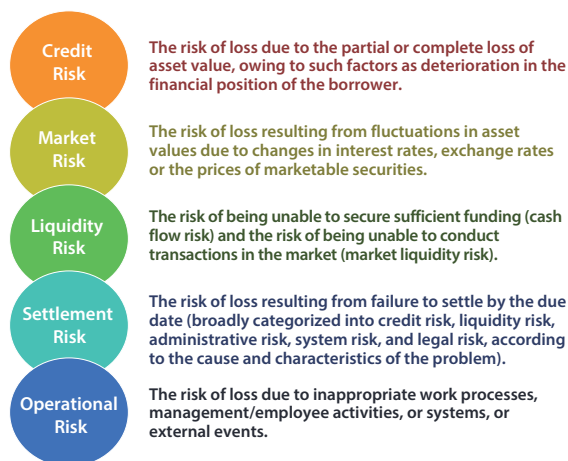


III. Integrated Risk Management

The Shoko Chukin Bank manages risks by classifying them into credit risk, market risk, liquidity risk, settlement risk, and operational risk categories.

Moreover, in order to comprehensively evaluate the impact of overall risk based on an assessment of individual categories, we manage risks by comparing and contrasting the risks assessed for each risk category with capital (integrated risk management).

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.

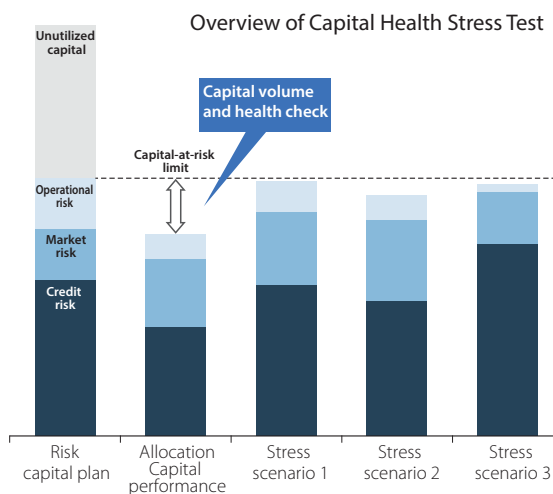


Using Stress Testing to Check Capital Health

The Shoko Chukin Bank performs stress tests to evaluate internal capital adequacy and check the health of our capital.

The stress tests targeted mainly credit risk and market risk and involve setting scenarios for stress events based on future outlooks and past stress events and calculating loss totals and value at risk (VaR) based on those scenarios.

In the event of any inconsistencies in our capital-at-risk limit, we will consider countermeasures in asset/liability management (ALM) meetings and revise plans in Board of Directors meetings if necessary.



IV. Particularly Important Risks

The Bank recognizes the following Especially Important Risks from among the major risks that can exert a significant impact on business operations. Any deliberations on especially important risks are made by the Board of Directors depending on their potential impact and likely occurrence.

We are continuously reviewing the especially important risks and preparing flexible responses.

Particularly important risks	Risk scenario
Compliance risk	The possibility of receiving a business operations improvement order or a business suspension order, to have the permits and licenses relating to your business rescinded, or to lose the trust of your customers and markets in the event of any illegal activity by executives or other employees or the conducting of any other unfair or improper business transactions
Risk of business strategy not working	The possibility that the strategies and measures for building our desired sustainable business models are not successful
Credit risk	The possibility that non-performing loans and credit costs may increase due to development in the global and Japanese economies, fluctuation in land prices, stock prices or interest rates, changing in borrowers' business conditions, and the impact of the Covid-19 pandemic on the economy in particular
System risk	The possibility of incurring losses due to a computer system crash or malfunction the emergence of system deficiencies, or illegal computer usage (including information security risks and cybersecurity incidents caused by system deficiencies or fraudulent system use)

V. Credit Risk Management System

Credit risk management is a particularly important part of our integrated risk management given that Shoko Chukin Bank lends to small and medium-sized enterprises that employ approximately 70% of Japan's workforce. We strive to maintain and improve the soundness of our loan assets by upholding appropriate loan examination standards and systems based on our SME-lending expertise.

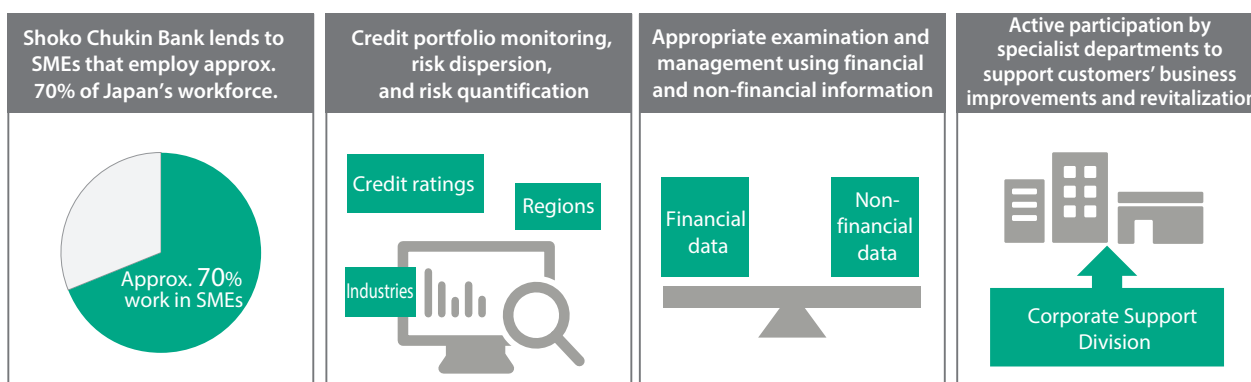
■ Credit Risk Management System

The 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. The Bank's 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.

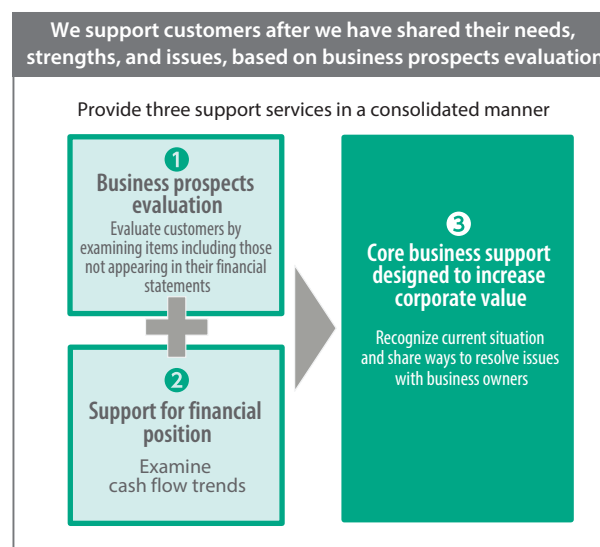


■ Screening of Borrowers Affected by the Covid-19 Pandemic

Given that SMEs are greatly affected by external factors such as economic conditions and the Covid-19 pandemic, we take a medium- to long-term view when evaluating the business outlook for our customers. 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.

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.



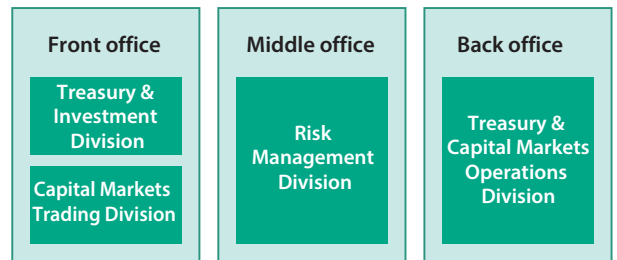
VI. Management Systems for Market and Liquidity Risks

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.

Market and Liquidity Risk Management Systems

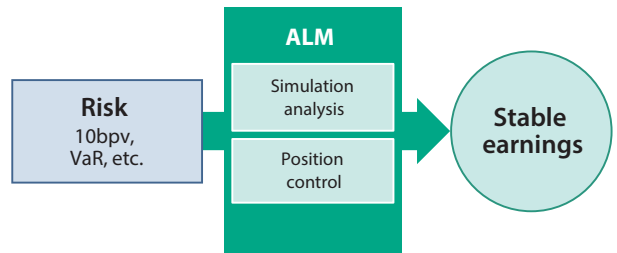
Under the Bank's market risk management structure, market operations are separated into front office and back office departments. In addition, a middle office fulfills a specialist role in managing market risk, with the overall structure providing a system of checks and balances between each of the functions.

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)

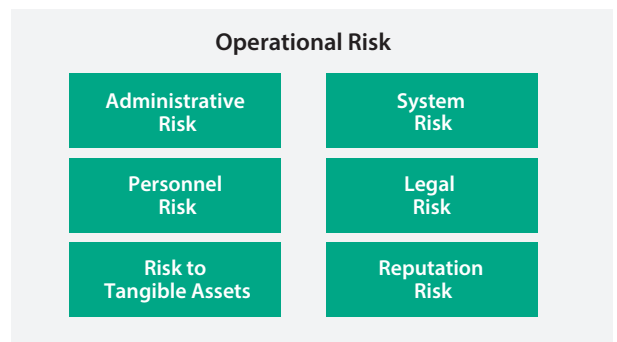
The Bank achieves this balance between profitability and risk control by analyzing its asset and liability portfolios using interest rate forecasts, 10 basis point value and VaR (Value at Risk) methods, and conducting simulations using multiple interest rate scenarios.



VII. Operational Risk Management System

In its role of overseeing operational risk, the Risk Management Division is responsible for managing and minimizing operational 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, we have established a department in charge of each risk, such as administrative risk and system risk along with management regulations, in an effort to reduce risk.

A Risk Control Self-Assessment (RCSA) has been introduced for risk management, 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.



■ 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. We listen carefully to any complaints and other comments we receive so that we can investigate and fully grasp the facts and then cooperate with relevant departments to solve issues quickly. Other institutions can also accept complaints and comments from customers and we encourage some customers to contact appropriate institutions* depending on the content of their complaints or comments.

* The Dispute Resolution Center and Arbitration and Mediation Center set up and operated by the Tokyo Bar Association, the Dai-ichi Tokyo Bar Association, and the Daini Tokyo Bar Association, or the Financial Instruments Mediation Assistance Center.

■ 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 attended by Audit and Supervisory Board Members, and are then reported periodically at Board of Directors' meetings.

■ 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.

Response to Covid-19

We established the Covid-19 Task Force chaired by the President, and are implementing measures to prevent the spread of Covid-19, in order to ensure smooth operations.

Shoko Chukin Bank's SDGs Initiatives (Helping Realize a Sustainable Society)

Article I (Objective) of the Shoko Chukin Bank Limited Act stipulates that the objective of the Shoko Chukin Bank, Ltd. is to conduct businesses necessary to facilitate smooth financing for SME cooperatives and other organizations that primarily consist of SMEs and their members.

As such, we recognize that accurately executing this act's objective first and foremost is the Bank's great social responsibility.

More specifically, through our commitment to provide comprehensive financial services business to support management, we aim to help solve customers' issues and enhance customers' corporate value. We also strive to work together with our customers to solve regional and social issues and help realize a sustainable society.

Environmental Policy

As a nationwide financial institution specializing in SMEs, the Shoko Chukin Bank recognizes the realization of a sustainable society as one of our priority management issues. With that in mind, we seek to contribute to local society and economies by proactively and persistently pursuing initiatives designed to harmonize our corporate activities, which focus on realizing our mission of increasing the corporate value of SMEs, with our duty to conserve the environment.

1. Complying with Laws and Regulations

We are committed to upholding laws and regulations pertaining to environment and other requirements agreed to by the Bank.

2. Conserving the Environment Through Financial Services

We strive to help reduce society's environment-related risks by fully mobilizing our nationwide network to actively support SMEs groups involved in environmental conservation and the business activities of our customer SMEs through the provision of financial products and services, while also cooperating with national and regional government policies.

3. Reducing the Environmental Impact of our Business Activities

The Bank recognizes the environmental impact of resource consumption and waste product emissions and strives to preserve the environment by pursuing resource recycling initiatives and promoting the effective use of energy and other resources.

4. Building Awareness Among All Executives and Employees, Promoting Disclosure

We strive to raise environmental awareness in order foster greater recognition of environmental issues among all our executives and employees. We disclose the status of any activities based on this fundamental policy on the Shoko Chukin Bank website.

● Conserving the Environment Through Financial Services

In order to encourage a more proactive response to environmental issues, the Bank is implementing an Environmental Measures Support scheme that extends financial and informational support to businesses pursuing environment-conscious management.

We also have a system for financing the purchase of vehicles that comply with the latest national emission regulations in cooperation with the Japan Trucking Association (Shinjuku, Tokyo). The use of this loan system has helped encourage the introduction of new vehicles that conform with Japan's Automotive NOx/PM Law that seeks to reduce nitrogen dioxide (NOx) emissions by 66% compared to pre-enforcement standards as well as the introduction of vehicles that comply with Japan's Post New Long-term Emission Regulation, an even more strict regulation on NOx emissions than the NOx/PM Law. The Post New Long-term Emission Regulation seeks to reduce NOx emissions by 65% compared to pre-enforcement standards.

● Reducing the Environmental Impact of our Business Activities

The Bank shares with all its offices power-saving and water-conserving methods and environmental drives and strive to achieve them. We also consider energy-saving effects when replacing and updating any equipment, such as air conditioning.

In terms of external reporting, the Bank has been reporting annual performance results of all facilities that fall under Japan's Act on the Rational Use of Energy and Act on Promotion of Global Warming Countermeasures and the Tokyo Metropolitan Environmental Security Ordinance. However, following some revisions to the acts in fiscal 2009, the amount of energy used by the Shoko Chukin Bank as a whole has been included in the required reporting categories under the rational use of energy and promotion of global warming countermeasures acts. We are working on the actual data reporting and further reducing our energy use.

In addition, in terms of voluntary initiatives, we have been promoting the procurement of products that comply with Japan's Act on Promoting Green Procurement. Since fiscal 2019, we have been encouraging staff at our headquarters and sales offices to wear casual business clothes year round.

● Addressing Climate Change (Initiatives on TCFD Recommendations)

The Shoko Chukin Bank supports recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and is striving to expand the disclosure of climate-related information.

Governance	<ul style="list-style-type: none">● Any matters that relate to the identification, evaluation, and management of climate-related opportunities and risks are regularly discussed at our Management Meeting, which is attended by the President and Executive Officer. We also submit regular reports on climate-related developments to the Board of Directors.
Strategy	<ul style="list-style-type: none">● We remain committed to promoting initiatives to help solve climate change and other social issues.● We analyze qualitative and quantitative scenarios regarding the opportunities and risks that climate change poses to management of the Shoko Chukin Bank. More specifically, we strive to analyze the impact of physical risks in the wake of recent natural disasters caused by climate change, and the impact of transition risks and opportunities created by the development of climate change policies and technological innovations associated with the transition to a low-carbon economy.● The Shoko Chukin Bank accounts for 0.3% of loans for carbon-related assets (as of March 31, 2021). *1
Risk Management	<ul style="list-style-type: none">● We commit to appropriately recognizing risks (physical risks and transition risks) that arise as a result of climate change, and striving to build a risk management approach that incorporates these risks.● To help realize a sustainable society, we are considering formulating a policy for investment and loans that may have an impact on the environment and society.
Metrics and Targets	<ul style="list-style-type: none">● The Bank's fiscal 2020 CO₂ emissions calculated based on the amount gas, electricity and other utilities used at its offices in Japan totaled 10,939 tons, down 28% from the fiscal 2013 level. *2● We aim to reduce CO₂ emissions at our offices in Japan by 50% by fiscal 2030 from the fiscal 2013 level.

*1 Based on TCFD-recommended definitions, the Bank recognizes any lending to the energy and utility sectors, except water utilities, as carbon-related assets. We periodically review the method for recognizing carbon-related assets.

*2 Using Scope 1 (direct) and Scope 2 (indirect) CO₂ emissions of the Shoko Chukin Bank included in regular reports under the Act on the Rational Use of Energy.

