

Internal Control

Fundamental Policy for Establishment of Internal Control System (Excerpt)

The Bank has formulated a fundamental policy concerning the establishment of an internal control system to ensure appropriateness of operations pursuant to a resolution of the Board of Directors. An outline of the policy is as follows.

1. System ensuring that the execution of duties by directors conforms to applicable laws, regulations and the Articles of Incorporation

(1) Directors shall execute their duties based on the Corporate Code of Conduct, which sets forth the Bank's corporate ethics, and the Guidelines for the Conduct of Bank Clerks, which must be taken into account in the course of duties, and comply with the Rules for Directors, which codify basic considerations for directors.

In principle, Board of Directors meetings shall be held once a month, and on other occasions as required, to promote communication among directors and enable mutual supervision of the execution of duties. The Board shall be operated in accordance with the Board of Directors Regulations in order to prevent violations of laws and the Articles of Incorporation by ensuring proper business activities.

The Bank is a company with an auditor system, wherein each standing auditor audits the progress of the execution of duties by directors according to the policy and the division of tasks set forth by the Board of Auditors and, when necessary, voices opinion, prohibits action by a director and/or devises other appropriate measures.

(2) The Board of Directors shall establish systems to cut off and resolutely eliminate any and all relationships with anti-social forces.

2. System for retaining and maintaining information regarding the execution of duties by directors

With respect to information concerning the execution of duties by directors, the Bank shall retain the minutes of the Board of Directors meetings, along with other relevant materials, for a period of 10 years in accordance with the Board of Directors Regulations, and maintain them in a state that renders them accessible as needed. Other important documents shall also be maintained in an appropriate manner, depending on the storage medium, in accordance with the Information Asset Management Standards and internal regulations, and shall be maintained in a state that renders this information accessible as needed.

3. Provisions for hiring assistants to standing auditors, if required, and their independence from directors

(1) The Bank shall place assistants to the standing auditors in the Secretariat as employees who are to assist the standing auditors with their duties.

(2) The assistants to standing auditors shall not perform additional work related to the execution of duties by directors. The standing auditors shall be

consulted and their agreement obtained before a decision is made regarding the evaluation, appointment and reassignment of such assistants to ensure independence from directors.

4. System for reporting by directors and employees to the standing auditors and system for other reports to the standing auditors

In accordance with the Standards of Reporting to Standing Auditors, directors and employees shall report to the standing auditors matters that may have a significant impact on the Bank's business in a timely manner. Notwithstanding the foregoing, the standing auditors may also request reports from directors and employees as required.

5. System to ensure that audits of the standing auditors are implemented effectively

The Bank works to ensure the effectiveness of the audits performed by the standing auditors by having them attend meetings where decisions that have a significant impact on business management are made, as well as through the circulation of important documents to them and their collaboration with the Internal Audit Department, certified public accountants and outside certified public accountants in accordance with the Board of Standing Auditors Regulations and the Auditing Standards for Standing Auditors.

Representative directors shall exchange opinions with the Board of Standing Auditors on a regular basis, and enhance mutual awareness of such matters as the issues to be addressed by the Bank and improvement of the environment for standing auditors' audits.

6. Regulations and other systems concerning managing exposure to loss

(1) The Bank recognizes (a) credit risks, (b) market risks, (c) liquidity risks, (d) operational risks and (e) other risks as key risks involved in the execution of the Bank's operations. Specific risks shall be identified and managed, and a comprehensive risk management system established. A detailed definition of each risk shall be provided in the basic risk management rules.

(2) The Bank shall establish an equity capital management system and an asset evaluation management system to ensure the soundness and appropriateness of the Bank's operations through sufficient capital adequacy proportionate to the risks.

(3) Each type of risk shall be managed in accordance with the basic risk management policy set forth in the basic risk management rules and other regulations pertaining to risk management. The Risk Management Department shall be responsible for the comprehensive management of the Bank's risks, a responsible department shall be assigned to each type of risk and such committees as the Risk Management Committee shall be established to ensure appropriate risk management.

(4) A risk management plan shall be created when formulating strategic objectives, such as business plans or the Medium-Term Management Plan. The management status of each type of risk shall be reported to the Board of Directors on a regular basis.

(5) The Bank shall establish necessary systems, including the Emergency Countermeasures Headquarters in the event of unforeseen circumstances, and respond appropriately to prevent the spread of damage in accordance with the Risk Management Manual.

7. System to ensure the efficient execution of duties by directors

(1) Matters that impact the Bank's operations, deemed to be significant matters requiring the resolution of the Board of Directors, shall be discussed and deliberated on in advance in the presence of the standing auditors by the Board of Managing Directors, which is comprised of the chairman, president, senior managing director and managing directors.

(2) Business execution pursuant to a resolution of the Board of Directors shall be in accordance with the decision-making authority and procedures stipulated in the Rules Defining the Extent of Job Authority and various other rules.

8. System ensuring that the execution of duties by employees conforms to applicable laws, regulations and the Articles of Incorporation

(1) The Bank shall establish the Corporate Code of Conduct, the Guidelines for the Conduct of Bank Clerks, the Rules on Compliance with Laws, Regulations, etc., the Compliance Manual and the Compliance Handbook in order to ensure a compliance framework. The contents of employment regulations and other rules, as well as guidelines for the handling of business affairs and other guidelines, shall be in compliance with all pertinent laws and the Articles of Incorporation.

(2) A Compliance System Committee chaired by the president shall be established to enhance compliance systems, monitor the status of legal compliance and otherwise foster a corporate culture that emphasizes compliance. The Compliance Department shall be responsible for overall compliance management and shall, among other things, examine measures related to compliance.

(3) Various measures shall be taken in a systematic manner in order to establish a compliance framework, such as the formulation and review of the annual Compliance Program, which serves as the Bank's basic compliance policy and implementation plan, as well as periodic compliance-related checks and compliance training.

(4) The Audit & Inspection Department shall be established as an internal audit department independent from the business execution departments, and shall perform audits to ensure that employee duties are in compliance with laws, regulations and the Articles of Incorporation.

(5) Should legal violations or other compliance-related facts be detected, an appropriate response shall be taken in accordance with employee regulations using a system wherein employees may report any wrongdoing directly to top management via the Management Help Line or other means.

9. System ensuring the appropriateness of operations throughout the Chugoku Bank Group comprising the Bank, its parent company and its subsidiaries

(1) Chugoku Bank Group Management Regulations shall be formulated in order to ensure appropriateness of business operations and effective business management with respect to each company of the Chugoku Bank Group. Each Group company shall formulate its own rules in accordance with the Bank's rules and establish systems befitting its business content and organizational structure to ensure the appropriateness of its business operations.

(2) The Bank shall formulate standards related to deliberation and reporting for each company in the Chugoku Bank Group and shall manage the business of the Group companies based on a system for making final decisions and receiving reports in accordance with said standards. Of the final decisions to be made by the Bank and reporting matters, those of importance shall be reported to the Bank's standing auditors. The Bank shall conclude an audit agreement with each Group company and conduct internal audits.

(3) The Chugoku Bank Group shall formulate regulations concerning the Management Help Line, an internal reporting system whereby employees can report any wrongdoing directly to top management in order to maintain the sound operation thereof.

(4) Each Group company shall report any legal violations in business management or content of management guidance by the Bank as well as any other compliance-related issues to the Bank's standing auditors.

(5) The Chugoku Bank Group shall comply with all laws, standards and other obligations concerning accounting practices and shall establish an internal control system to ensure the appropriateness of the Group's financial reporting.