

Review of Operations

Financial Condition

Results by business segment are as follows.

Banking business

In the banking business, recurring income decreased by ¥8,537 million year on year, or 6.8%, to ¥116,499 million, due primarily to a decrease of gain on sales of securities, and a decrease of interest and dividends on securities as a result of balance management for securities investment operations.

Meanwhile, ordinary profit decreased by ¥1,037 million year on year, or 3.5%, to ¥27,931 million, due to the large impact of downward factors such as the increase in foreign currency procurement costs, despite upward factors such as the decreases of loss on sales of securities and write-off of shares.

Leasing business

In the leasing business, recurring income decreased by ¥3,875 million year on year, or 25.6%, to ¥11,245 million, due to a drop in yields and a decrease of re-lease and installment transactions, while ordinary profit also decreased by ¥266 million year on year, or 24.4%, to ¥823 million.

Securities business

In the securities business, recurring income increased by ¥709 million year on year, or 19.7%, to ¥4,303 million, due primarily to strong sales utilizing the redemption proceeds from structured bonds which increased from the rising stock market, while ordinary profit also increased by ¥345 million year on year, or 88.0%, to ¥737 million.

Other

For other businesses, recurring income increased by ¥142 million year on year, or 2.7%, to ¥5,333 million, due primarily to an increase in guarantee commission received in the credit card business.

Meanwhile, ordinary profit increased by ¥289 million year on year, or 17.7%, to ¥1,922 million, due to a decrease in credit costs in the credit guarantee business.

Earnings

Consolidated recurring income decreased by ¥10,422 million year on year, or 7.2%, to ¥132,445 million, due primarily to a decrease of gain on sales of securities arising in view of the interest rate trend in the U.S., and a decrease of interest and dividends on securities as a result of balance management for investment operations on foreign bonds and other securities.

Ordinary profit decreased by ¥683 million year on year, or 2.1%, to ¥30,922 million, due to the large impact of downward factors such as the aforementioned decrease of interest and dividends on securities and an increase in foreign currency procurement costs, despite upward factors such as decreases of loss on sales of securities and write-off of shares.

Net income attributable to owners of parent increased by ¥935 million year on year, or 4.6%, to ¥21,258 million.

Cash Flows

Cash and cash equivalents as of the end of the current fiscal year decreased by ¥34,717 million year on year to ¥760,451 million. This was due to the policy to focus on increasing the balance of municipal and corporate bonds for securities investment operations and increasing the loan balance centered on local commercial viability, although some portions of the loss were set off by factors such as sales of foreign currency denominated securities in view of the interest rate trend in the U.S., and an increase in deposit balance.

Cash flows from operating activities

Net cash used in operating activities decreased by ¥77,167 million year on year to ¥101,208 million. This is due mainly to a decrease in payables under

securities lending transactions as a result of reduction of securities balance.

Cash flows from investing activities

Cash flows from investing activities amounted to ¥73,151 million, decreasing by ¥278,202 million year on year.

This is due to a decrease in sales of securities as well as an increase in purchases of securities.

Cash flows from financing activities

Net cash used in financing activities increased by ¥6,931 million year on year to ¥6,654 million.

This is due to payments from purchases of stocks of subsidiaries not resulting in change in scope of consolidation during the corresponding period of the previous fiscal year, and a decrease in share buybacks year on year.

Forecast for Next Term

For the fiscal year ending March 31, 2019, the Chugoku Bank Group forecasts consolidated recurring income of ¥124,100 million, consolidated ordinary profit of ¥23,100 million and net income attributable to owners of parent of ¥15,400 million.

Dividend Policy

In light of the public nature and soundness of our banking business, the Bank makes it a basic policy to secure sufficient retained earnings while continuing to pay stable dividends in order to maintain a firm financial standing capable of withstanding any challenging environment. Specifically, we aim to pay a stable per-share dividend of ¥18 per year, and to achieve a total payout ratio of 35%, which includes dividends and share buybacks.

For the fiscal year ended March 31, 2018, the Bank has determined to pay an annual per-share dividend of ¥20 (year-end dividend of ¥10) as originally planned.

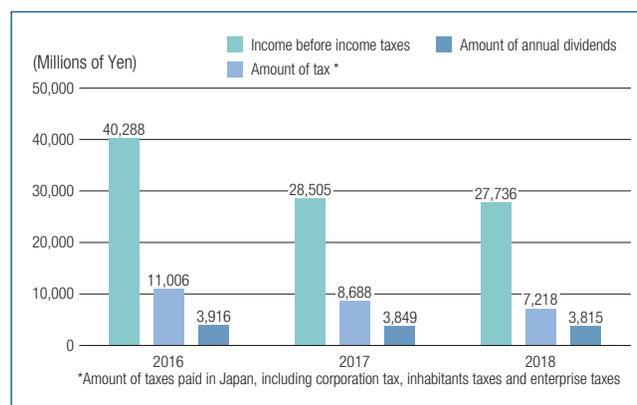
With respect to the expected dividends for the fiscal year ending March 31, 2019, the Bank plans to increase the stable per-share dividend by ¥2 and pay an annual per-share dividend of ¥20 (interim dividend of ¥10).

Under the Bank's basic policy on the number of dividend payout for each fiscal year, the Bank distributes a dividend twice a year (an interim dividend and a year-end dividend). The decision-making bodies for these dividends are the Board of Directors for the interim dividend and a general meeting of shareholders for the year-end dividend.

The Bank has also included a provision in its Articles of Incorporation, which stipulates that it may distribute an interim dividend as permitted in Article 454, paragraph 5 of the Companies Act.

The Bank will strive to continue to pay stable dividends.

Income before Income Taxes, Amount of Tax, Amount of Annual Dividends



Capital Adequacy Ratios

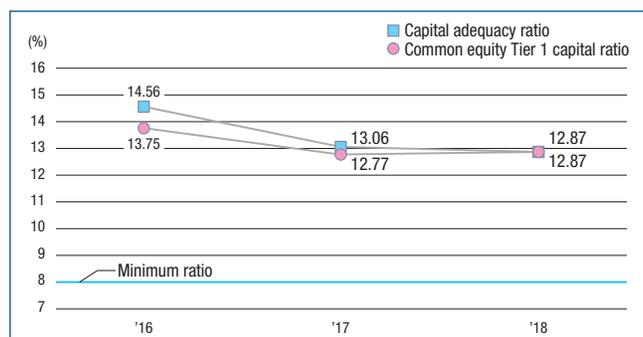
The Bank's capital adequacy ratio was 12.87% as of the end of March 2018.

The Bank calculates its capital adequacy ratio on the basis of the international BIS standards*.

*The international BIS standards call for at least 8% of capital adequacy ratio, at least 6% of Tier 1 capital ratio, and at least 4.5% of common equity Tier 1 capital ratio.

$$\text{Capital adequacy ratio (\%)} = \frac{\begin{matrix} (1) \text{ Common equity Tier 1 capital} \\ + \\ (2) \text{ Additional Tier 1 capital} \\ + \\ (3) \text{ Tier 2 capital} \end{matrix}}{(4) \text{ Risk-weighted assets}} \times 100$$

- (1) The amount of common equity Tier 1 capital represents the capital with the highest quality, comprising common stock, retained earnings and others.
- (2) The amount of additional Tier 1 capital comprises preference shares, equity instruments with high loss-absorbing capacity and others.
- (3) The amount of Tier 2 capital comprises subordinated bond, subordinated loans (limited to those which are assured to absorb loss, subordinated to savers and unsecured creditors) and others.
- (4) The amount of risk-weighted assets is derived by integrating the values of various categories of asset commensurate with the degree of their risk.



Risk-managed Loans (Non-consolidated)

The balance of risk-managed loans decreased by ¥9,045 million year on year, to ¥71,168 million as of the end of March 2018, as a result of efforts to upgrade borrowers' status through business rehabilitation activities and reduction efforts including direct write-offs and elimination from balance sheet by debt disposal.

In addition, the ratio of risk-managed loans (against the total loan balance) deteriorated by 0.30 percentage point year on year, to 1.52% as of the end of March 2018, due to an increase in the total loan balance.

Status of impaired loans		
	(Millions of Yen)	
	End of March 2018	End of March 2017
Loans to bankrupt customers	¥ 3,881	¥ 4,625
Loans past due six months or more	50,956	59,435
Loans past due three months or more	1,509	802
Restructured loans	14,819	15,349
Total	¥ 71,168	¥ 80,213
The ratio of risk-managed loans (against the total loan balance) (%)	1.52	1.82

Loans to Bankrupt Customers

Of the loans whose accrued interest is not recognized as revenue, loans to customers who have been bound by legal procedures under the Corporate Reorganization Act, Bankruptcy Act, or the rehabilitation procedures, as well as

loans to customers whose transactions have been suspended by the Clearinghouse.

Loans past due six months or more

Loans whose accrued interest is not recognized as revenue, excluding loans to bankrupt customers as well as those for which payment of the interest has been postponed to ensure the borrowers' business rehabilitation or to assist their management to carry on.

Loans Past Due Three Months or More

Loans for which repayment of the principal or the interest has been overdue three months or more from the day following the due date, but not classified as either loans to bankrupt customers or loans in default defined above.

Restructured Loans

Loans for which arrangements have been reached in the borrowers' favor to ensure their business rehabilitation or to assist their management to carry on, including reductions in or exemption of the interest rate, postponed payment of the interest, a grace period for repayment of the principal, and debt forgiveness, but not classified as either loans to bankrupt customers, loans in default or loans past due three months or more defined above.

Ratings

Ratings is a ranking in terms of its certainty in performing obligations (creditworthiness) to indicate whether it is reliable enough to repay the principal and interest of savings deposited by its customers, as well as its financial soundness, based on the examination of its financial position along with its external business environment by a rating agency operating as a fair third party. The Chugoku Bank has obtained ratings from Moody's as well as Rating and Investment, Inc. (R&I), and is ranked as one of the best among the Japanese banks.

Rating symbols and gradations			
	Moody's		R&I
	* Long-term deposit rating	* Short-term deposit rating	* Long-term credit rating
Investment grade	Aaa	P-1 (PRIME-1)	aaa
	Aa1		aa1
	Aa2		aa2
	Aa3		aa3
	A1		a1
	A2		a2
	A3		a3
	Baa1		baa1
	Baa2		baa2
	Baa3		baa3
Speculative grade	Ba1	ba1	BB+
	Ba2	ba2	BB
	Ba3	ba3	BB-
	B1	b1	B+
	B2	b2	B
	B3	b3	B-
	Caa1	caa1	CCC+
	Caa2	caa2	CCC
	Caa3	caa3	CCC-
	Ca		CC
C		D	

Comprehensive Risk Management System

Comprehensive Risk Management System

The Bank defines risk management as one of its critical management agenda and aims at well-balanced management in pursuit of enhanced profitability while maintaining operational soundness through further development of comprehensive risk management. To this end, risks are managed in accordance with the basic risk management rules which set out policies and framework of risk management for the entire Bank along with other basic matters on the subject.

Risks assumed by banks include credit risks, market risks, liquidity risks and operational risks. At the Chugoku Bank, we have established a system for managing the various types of risks comprehensively through the establishment of a controller for risk management as well as various committees such as the Asset and Liability Management (ALM) Committee. We also designate sections in charge of each risk and analyze the status of these risks by risk category, and evaluate and manage them for the entire bank. We have also established a system to ensure proper risk management on a continual basis under which the Audit & Inspection Department monitors the status of risk management by the various divisions.

In order to ensure the effectiveness of the comprehensive risk management, the Bank assesses and verifies the degree of capital adequacy by comparing its own capital with the total amount of risk the Bank is exposed to, as derived by aggregating the amounts of credit, market and operational risks calculated by statistical and other methods. Meanwhile, stress tests are conducted to assess and verify the risk events, for which amount of each category of risk is unlikely to have been fully identified. The results of such assessment and verification are utilized for the development and review of the operation plan and risk management policies, to ensure operational soundness while enhancing profitability at the same time. Furthermore, to ensure operational soundness on a constant basis, the Bank makes it a principle to conduct risk taking within the limit of the common equity Tier 1 capital excluding losses that are actualized under certain stress situations and net unrealized gains on available-for-sale-securities if its value is positive (unrealized gain), whereby risk amounts are monitored and managed within the risk limits established for each risk category.

Credit Risk Management

Credit risk refers to the risks of losses incurred when the value of assets (including off-balance-sheet assets) declines or becomes worthless due to changes in the financial status of those to whom credit is provided.

The Bank's basic credit risk management policy is, (within the scope of its management capabilities), to ensure that return is commensurate with risks in its transactions and to appropriately manage the credit risks of the diverse transactions of each of its divisions and business sections using credit risk assessment and management methods that suit the special characteristics of each transaction in order to maintain a sound asset structure. The Bank carries out its credit risk management appropriately based on its Credit Risk Management Standards and various detailed management methods provided for in the Bank's operating regulations.

Based on this framework, the Credit Rating Center and Credit Supervision Department manage the risks of the individual loans of the operational divisions (branches and loan sales departments at the headquarters). The Risk Management Department, which is completely independent of the loan sale, screening, and approval process, is responsible for managing overall credit risks. The Bank has also established an auditing system for credit risks, appointing a Credit Screening Supervisor in the Audit & Inspection Department who bears the responsibility for conducting internal audits for credit risks.

Specifically, credit risk management entails determining the overall condition of the customer's business through credit ratings, self-assessment, and other methods. This information is utilized to carry out credit screening for individual loans, administer the loans after they have been extended, and properly

determine write-offs and reserves. From the perspective of loan portfolio management, the Chugoku Bank strives to strengthen control of credit risks and its ability to earn stable income by monitoring the loan balance composition and credit risks and cost adjusted income.

Risk managers verify that calculated credit risk exposure is within the credit risk limits set under the credit risk management plan, conduct stress tests to assess the Bank's degree of capital adequacy, and report results regularly to the Board of Directors and other management bodies.

Credit concentration risks are managed by grasping and controlling credit exposure by debtor, industry and country, the status of which is reported to the Board of Directors and other management bodies on a regular basis.

In addition, the Bank's "Credit Management Committee" investigates and analyzes large borrowers with regard to their multidimensional conditions to discuss appropriate policies to cope with their current financial status. These policies are subsequently deliberated on by the Board of Managing Directors; their decisions are regularly reported to the Board of Directors, with a view to conducting proper management of large borrowers' credit risks.

Market Risk Management

Market risk refers to the risks of incurring losses from fluctuations in profits arising from assets and liabilities and the risks of incurring losses from fluctuations in the value of assets and liabilities (including those off balance sheet) due to fluctuations in market risk factors such as interest rates, exchange rates and share prices.

The Bank's basic risk management policy for market risks is to determine and analyze risks from the point of view of both price and return on asset movements as well as assessing the risks from various angles, using stress tests and other methods. The Bank carries out its market risk management appropriately based on its Market Risk Management Standards, which stipulate the framework and systems for market risk management, and various detailed management methods provided for in the Bank's operating regulations.

The structure for market risk management is divided into the business operations division (front office) and the administrative division (back office). We have also established a risk management division (middle office). These serve as reciprocal restraints.

Trading limits and loss limits have been set for trading operations, the goal of which is to earn trading profit from buying and selling securities in market operations. These are managed to ensure that losses in excess of a certain amount do not occur. Banking operations (investment securities) are managed for risks by taking the risk-return balance into consideration through ALM analysis, Value at Risk (VaR) analysis and other means to ensure stable profits over the medium and long term. We have also established a system for the flexible management of market risks as well as credit risks and liquidity risks related to market operations.

Market risk management for the entire bank, including lending and deposit services, is carried out by analyzing risks from multiple aspects, such as the calculation of interest rate risks. The Risk Management Committee and the ALM Committee discuss the overall management of assets and liabilities and consider management and lending policies.

Liquidity Risk Management

Liquidity risk refers to the risks of incurring losses (hereafter, "fund procurement risks") when it becomes difficult to secure the requisite funds or when procuring funds at a much higher than normal interest rate becomes necessary due to a mismatch between the timing of use and procurement or to an unexpected outflow of funds, or to risks incurred when transactions cannot be conducted or must be conducted at prices that are much more disadvantageous than normal due to market disruptions or other factors (hereafter, "market liquidity risks").

The Bank recognizes fund procurement as an important management issue

and its basic fund procurement risks policy is to ensure a stable supply of funds. The Bank's basic policy for managing market liquidity risks is to take into consideration the special features of markets for individual products, such as market size, liquidity, and other factors and pay careful attention to their market liquidity. The Bank carries out its fund procurement risks and market liquidity risk management appropriately based on its Market Liquidity Risk Management Standards, which stipulate the framework and systems for fund procurement risks and market liquidity risk management.

Funds procurement risks are subject to strict management and this is divided between the funds procurement division, which procures funds, and the funds procurement risk management division, which monitors the status of the procurement of those funds.

The funds procurement management division carefully monitors the daily status of funds procurement for market operations and other operations and works to limit the risks involved in the procurement of funds. The funds procurement risk management division determines the management policies for risks of procuring funds such as policies on holding highly liquid assets and setting limits on procurement from the market. The funds procurement risk management division monitors developments to ensure there are no problems with the status of funds procurement in the funds procurement management division.

Deposits comprise the vast majority of procurement for the Chugoku Bank and the procurement of funds is stable. However, we are working to diversify the means of procurement to prepare for unforeseen circumstances by procurement from the market utilizing marketable securities held by the Bank.

Operational Risk Management

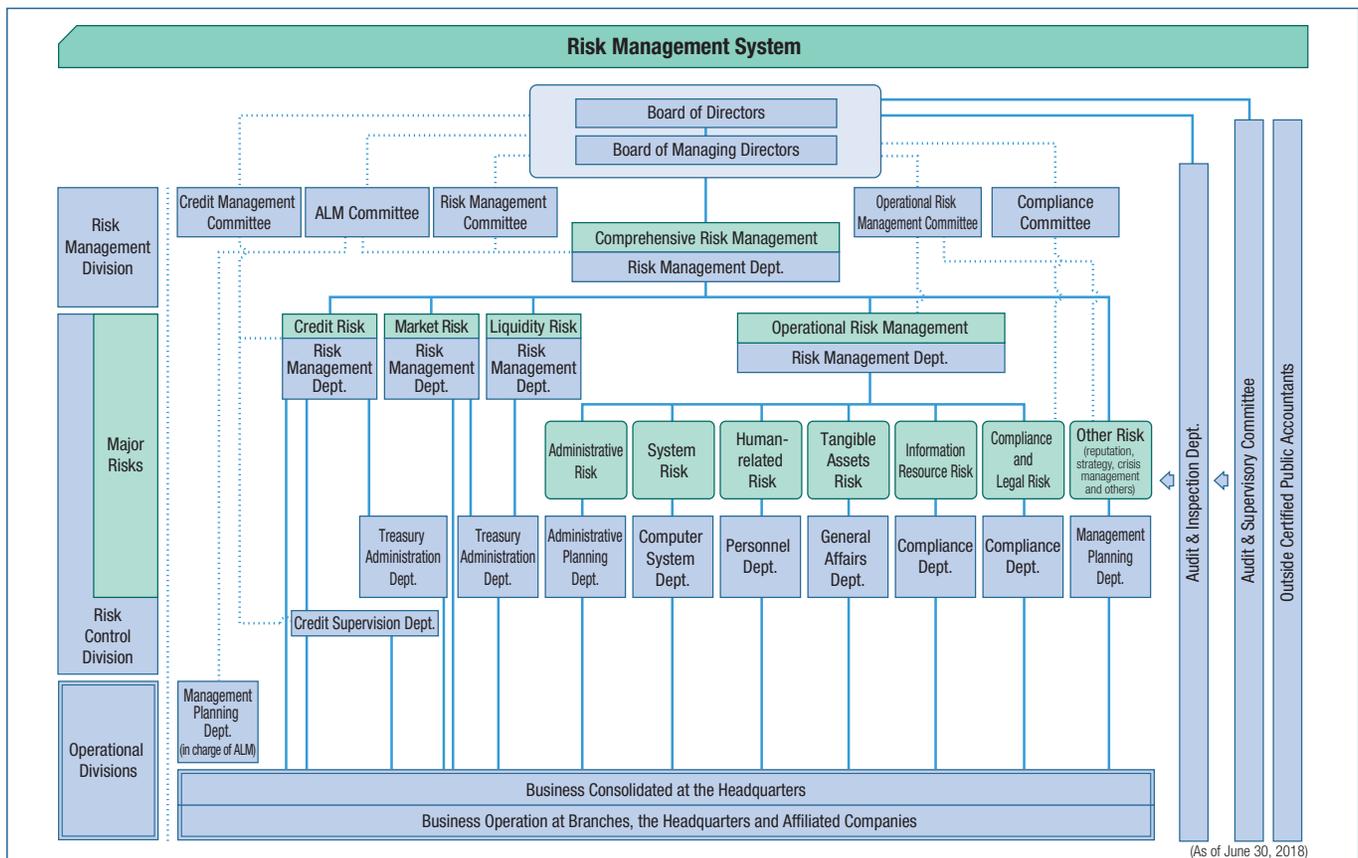
Operational risk refers to risks of losses arising from bank operational

processes, employees' and officers' activities or an unsuitable system or due to external circumstances.

The Chugoku Bank's basic policy on the management of operational risks is to establish a solid organizational structure and mechanism, under which it performs continuous management of operational risks with the aim of preventing their realization or minimizing their impact should they occur. To this end, the Bank has established its Operational Risk Management Standards and other risk management standards and rules for each category of risks. In accordance with these standards and rules, it conducts appropriate management of overall operational risks.

The Bank separates operational risks into six categories: 1) administrative, 2) system, 3) human-related, 4) tangible assets, 5) information resource, and 6) compliance and legal risks; each category of risk is overseen and controlled by a designated division in charge of specific risks, drawing on its specialized point of view. In addition, the Bank established the Operational Risk Management Center of the Administrative Planning Department, the supervisory division for the Bank's overall operational risk management structure and management of Operational Risk Management Committee, and conducts the integrated monitoring and management of overall operational risks.

As an operational risk management method, specifically, the Chugoku Bank implements Risk Control Self-Assessment (RCSA) programs. In addition to assessing risks, these programs upgrade risk management measures, such as controlling, transferring, and avoiding risks, based on the formulation of measures to prevent recurrence. These procedures involve collecting and analyzing operational risk loss event data as a method of capturing risks and establishing response measures. Moreover, to increase the efficiency of operational risk management, the Bank is endeavoring to set up a Plan-Do-Check-Act (PDCA) cycle for risk management.



CSR Activities

The Bank has established a CSR Committee with the president as chairman. We consider our stakeholders to be current and future customers, shareholders, the regional community and bank employees, and the Bank's approach to CSR activities underlines this broad view.

At the heart of CSR activities is the Bank's integrity upheld through compliance and corporate governance in order to ensure the Bank is an upstanding corporate citizen when conducting its operations.

In activities contributing to society, the Bank places the highest priority on contributions to the region in its capacity as a regional financial institution. We are continuously considering bold, new approaches beyond our core operations in order to contribute to society.

Through these activities we will grow and develop hand in hand with our local communities.

Social Contribution through Business

Policy on Initiatives Related to Management Support for SMEs (Basic policy concerning promotion of regional financing)

▶ As its corporate principles, the Bank strives to "Remain firm in self-driven sound management to develop in step with regional society by providing unwavering trust and superior comprehensive financial services." By providing superior comprehensive financial services to regional customers, the Bank will work to contribute to the revitalization and continuous growth of regional society.

▶ To achieve this, in addition to its role as a provider of funds marked most significantly by loans, the Bank recognizes as an important issue the revitalization of regional economies through consulting that corresponds to the life stage of customers, which includes start-up and new business support, growth support, management improvement and business renovation support, and business continuity.

▶ The following three items have been defined as the "policy on initiatives concerning promotion of regional financing," and the Bank will work to expand its activities in these areas.

Making Full Use of Our Consulting Function According to the Life Stage of Our Customers

- The Bank's policy is to fully comprehend customer companies' management challenges on business and financial terms by evaluating their commercial viability, and also to commit to fulfilling our consulting function in coordination with outside experts.
- In "supporting start-ups/new businesses, growth support such as development of sales channels and support for overseas expansion, and business continuity support," we are strengthening our consulting functions through unified support from the start-up consideration stage until commercialization, various business meetings, and business matching, etc.
- In "management improvement and business rehabilitation supporting," we further enhance our supporting activities for management improvement through integration among the Bank's branches and headquarters to propose the right solutions at the right time, based on comprehension of the business content of our customers. In addition, we actively employ outside expert organizations such as REVIC and the Revitalization Support Council and various funds to provide more advanced methods of assistance in the management improvement and business rehabilitation supporting field.

Contributing to Regional Creation and Revitalization of Regional Economies

- By setting up a "Comprehensive Town, Person, and Work Creation Strategy Structure," the Bank actively participates in each local government from the regional comprehensive strategic planning stage.
- In the strategy execution stage as well, the Bank continues to work in

cooperation with local governments for regional creation via initiatives such as new business proposals and participation in business operation conferences that leverage its knowledge and networks.

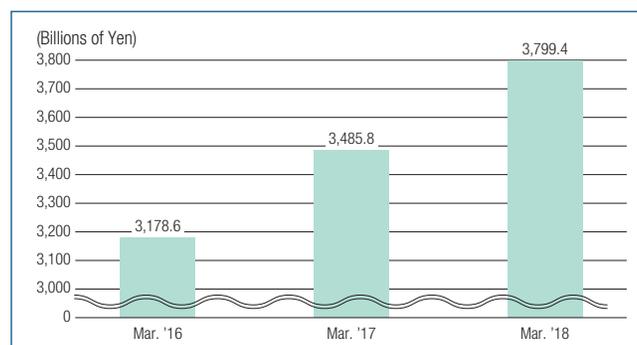
- The Bank collects and analyzes various forms of information from the region, and actively promotes industry-academia-government-finance cooperation. In addition, the Bank is strengthening efforts to support the cultivation of growth fields and efforts to promote the region.

Actively Offering Information to the Regional Society and Our Customers

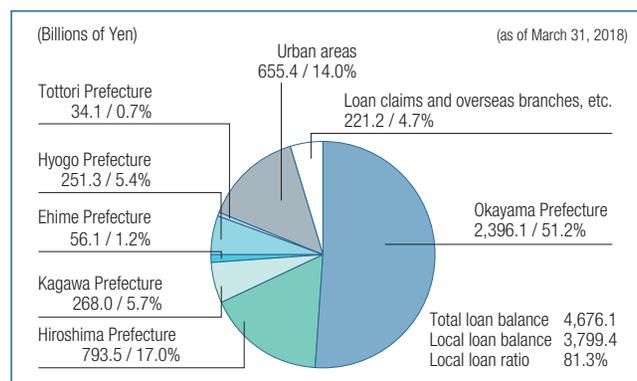
- The Bank actively offers information about specific activities and their results with regard to efforts related to community-based financial services. We will strive to improve our services even further in order to earn the trust and support of our regional customers.

Loan Balance to Regionals

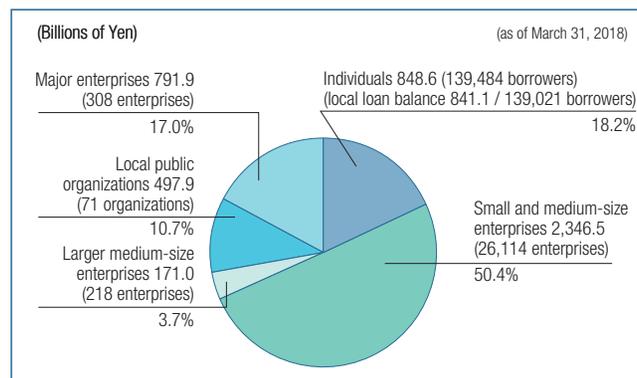
The Bank will take on risks proactively to meet the financing needs of customers.



Breakdown of Loans to the Regional Community



Loan Balance by Type and Number of Borrowers



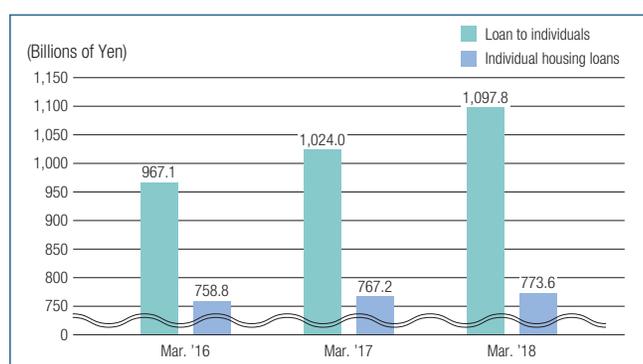
Loans to Individuals

We have established housing loan centers to actively address individual client needs to acquire a home and provide support for financing plans based on the client's life plan.

In addition to housing loans, we provide card loans, automobile loans and student loans, as well as loans for construction of apartments and other residential property to make the most effective use of underutilized real estate.

As a result of these efforts, the balance of loans to individuals increased ¥73.8 billion for the year compared with the fiscal year ended March 31, 2017, to ¥1,097.8 billion.

Loan Balance to Individuals



Wide-reaching Social Contribution beyond Business

The Bank is engaged in a wide range of activities to contribute to the regional community.

These activities include a think-tank run by the Group's Okayama Economic Research Center, and support for sports, culture, education, and community events, as well as providing time deposits in aid of the Association of Medical Doctors of Asia (AMDA), parenting support, and environmental conservation activities.

Compliance System Overview

All the officers of the Chugoku Bank are aware of the social responsibilities that are required of us. We believe that a critical challenge in our operations is strengthening our compliance framework to meet the expectations of our local customers and stockholders. This is seen as one of our CSR activities.

Some of our compliance activities are as follows:

1. We concrete measures such as the enactment of the Corporate Code of Conduct as the basis for ethical conduct in the course of management and operations; the Guidelines for the Conduct of Bank Clerks, which bank clerks should observe in the course of their duties; the Compliance Manual which are the reference manuals for compliance at the Bank.
2. We establish the Compliance Committee and assign Legal Compliance Supervisors at the various branches and offices.
3. We try to ensure that an awareness of compliance permeates the organization by various types of seminars.
4. We create a Compliance Program each year as a plan for the practical implementation of compliance and verify the progress on and degree of achievement on a regular basis.
5. With the objective of preventing inappropriate behavior by bank staff and facilitating the early detection of unethical activities, we have adopted a system wherein employees may report any wrongdoing directly to top management.
6. The Chugoku Bank Group is taking a firm stance against anti-social forces that threaten social order and safety and prevent the development of a sound economy and society. As an organization, we also collaborate with external bodies with expertise in this area, such as the police, in dealing with

inappropriate demands by such anti-social forces.

The Bank takes the approach of giving compliance and morals the highest priority and is emphasizing compliance within its corporate culture.

Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism

As global threats of nuclear weapons, missiles, and terrorism continue to increase, cutting off financial sources leading to criminals and terrorists is an issue that needs to be addressed jointly by the Japanese and international communities, and measures to prevent money laundering and terrorist financing now bear greater importance.

The Financial Services Agency established and released the Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism which outlines the basic approach that financial institutions should take in implementing effective countermeasures. In such climate, the Bank formulated the following policy and takes measures to prevent the flow of funds to criminal syndicates, to maintain safe and convenient financial services, and to create an environment making it difficult for criminal syndicates to engage in activities.

Policy on the Prevention of Money Laundering, etc.

The Chugoku Bank, Limited
The Chugoku Bank, Limited (hereinafter, the "Bank"), based on the recognition that prevention of money laundering and terrorist financing is a priority task required not only domestically but also from the rest of the global community, has set up a management system in order to strictly address this task and has set forth the following policy as a basis for execution of operations.

1. Management Policy

The Bank shall clarify roles and responsibilities associated with the prevention of money laundering and terrorist financing (*1 hereinafter collectively, "Money Laundering, etc.") and establish an internal system capable of responding to Money Laundering, etc. in a timely and accurate manner.

2. Verification at the Time of Transaction (*2)

- The Bank shall establish an internal system capable of conducting verifications at the time of transaction in a timely and accurate manner.
- The Bank shall continually give training to its officers and make them thoroughly understand related laws, regulations and administrative rules, in order to conduct verifications at the time of transaction in a timely and accurate manner.

3. Confirmation of Sanctions Including Freezing of Assets (*3)

- The Bank shall establish an internal system capable of confirming sanctions including the freezing of assets of terrorists, etc., in a timely and accurate manner.
- The Bank shall continually give training to its officers and make them thoroughly understand related laws, regulations and administrative rules, in order to confirm sanctions including the freezing of assets of terrorists, etc., in a timely and accurate manner.

4. Notification of Suspicious Transactions (*4)

- The Bank shall establish an internal system capable of notifying suspicious transactions in a timely and accurate manner.
- The Bank shall promptly notify the authorities of suspicious transactions in accordance with laws and regulations.
- The Bank shall continually give training to its officers and make them thoroughly understand related laws, regulations and administrative rules, in order to notify suspicious transactions in a timely and accurate manner.

5. Verification of the Status of Compliance

The Bank shall inspect the status of compliance with regard to the prevention of Money Laundering, etc., and based on the results of such inspections, shall continually make efforts to improve its internal system.

*1. Money laundering refers to "the act of concealing the source of funds obtained from criminal activities, in order to make them appear as though they were obtained from legitimate transactions," and terrorist financing refers to "the act of providing terrorists with funds necessary for committing terrorist acts, including bomb attacks and hijacking."

Corporate Governance

- *2. Verification at the time of transaction refers to "the mandatory verification by financial institutions of a customer's name, address, date of birth, etc., pursuant to the Act on Prevention of Transfer of Criminal Proceeds."
- *3. Confirmation of sanctions including freezing of assets refers to "the mandatory confirmation by financial institutions of whether a customer is subject to economic sanctions, including the freezing of assets, etc., pursuant to the foreign exchange laws."
- *4. Notification of suspicious transactions refers to "the mandatory notification to the Financial Services Agency by financial institutions, in a case where a fund deposited by a customer is under suspicion of proceeds obtained from a criminal activity, or in a case where a customer is under suspicion of concealing proceeds obtained from a criminal activity, pursuant to the Act on Prevention of Transfer of Criminal Proceeds."

Corporate Governance

The Bank will try to strengthen and enhance the corporate governance in order to develop along with local communities as a bank to be selected and trusted through comprehensive financial services and achieve a sound and sustainable growth and a medium- to long-term improvement of the corporate value, while considering profits of all stakeholders related to the Bank including the shareholders, customers, local communities, and employees by taking following actions.

- (1) The Bank will try to establish an appropriate corporate governance framework while the Board of Directors, the Audit and Supervisory Committee, and Directors recognize the fiduciary responsibility to the shareholders.
- (2) The Bank will try to ensure the appropriateness of the business executions and the effectiveness of audits and supervision by measures such as determining management policies and execution of important duties through adequate deliberation in the Board of Directors and accurate execution of duties by Directors involved in the execution of business, alongside supervision by the Board of Directors, audits by the Audit and Supervisory Committee, and appropriate maintenance and operation of the internal control system based on laws and regulations such as the Companies Act.
- (3) The Bank will try to establish the environment where the rights of shareholders are respected and properly executed, constructive dialogue is

made with shareholders, and active disclosure is made for corporate information including non-financial information, etc., as well as ensure the real equality of shareholders.

The Bank transitioned to a company with an Audit and Supervisory Committee as part of its measures to enhance corporate governance. The number of Directors (excluding Directors serving as Audit and Supervisory Committee Members) stood at 11 (of which, two are Outside Directors) and the number of Directors serving as Audit and Supervisory Committee Members was six (of which, four are Outside Directors) as of the end of June 2018.

Since voting rights at the Board of Directors are granted to Directors serving as Audit and Supervisory Committee Members at a company with an Audit and Supervisory Committee, the audit and supervisory functions over the Board of Directors and Directors have been enhanced.

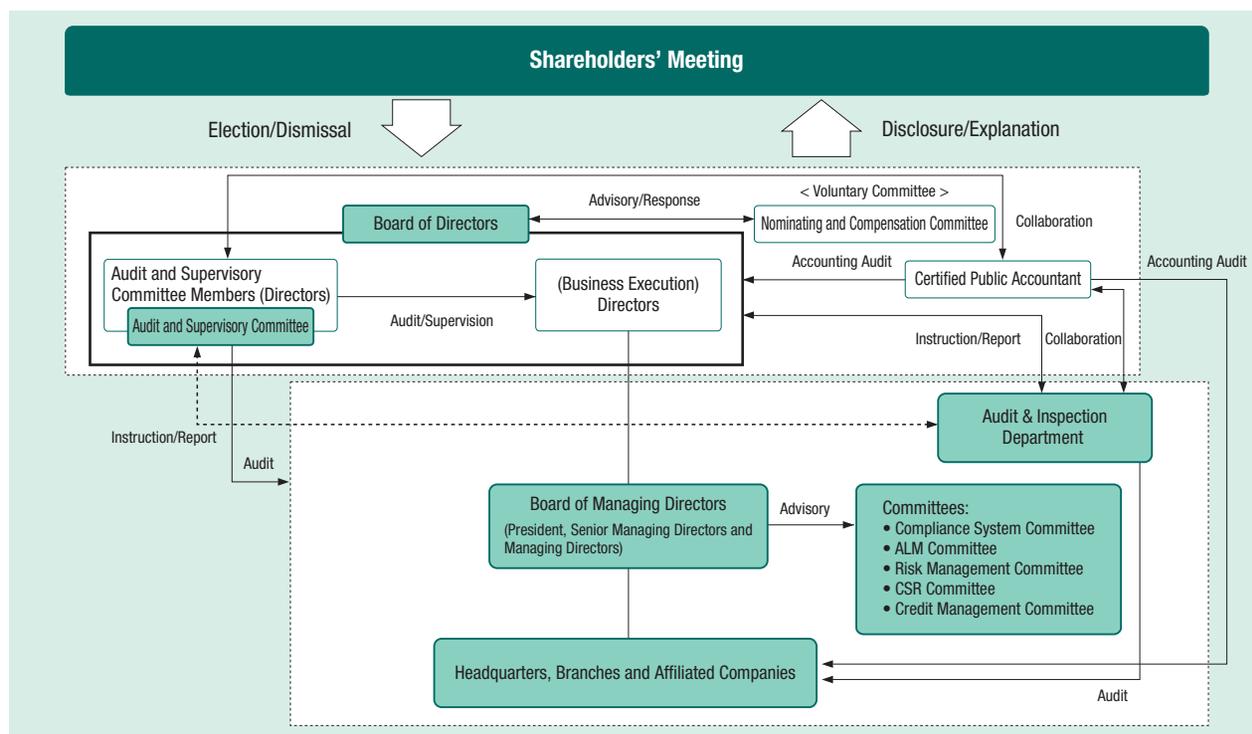
In addition, since a company with an Audit and Supervisory Committee can delegate part of the authority of the Board of Directors to Directors pursuant to provisions of the Companies Act, a structure has been in place, under which matters submitted to the Board of Directors are narrowed down to highly important proposals to enrich discussions on important proposals, including management strategies, at the Board of Directors and accelerate decision-making of the Bank.

As described above, with its structure capable of active discussions and quick decision-making, the Board of Directors of the Bank discusses important matters such as the formulation of business plans and fundamental policies for establishment of internal control system and reports the status of business execution by Directors and other matters.

Also, to ensure mobility in management decision-making, the Bank has established "Board of Managing Directors," which comprises eight Executive Directors, including the President, and discusses matters delegated by the Board of Directors and other matters.

Furthermore, with regard to items such as risk management, which are important for conducting proper corporate activities, the Bank has established various kinds of committee structures as advisory bodies of the Board of Managing Directors to discuss such items flexibly.

Corporate Governance Framework



(As of June 30, 2018)

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 Audit & Supervisory Committee system, wherein each Audit & Supervisory Committee Member audits the progress of the execution of duties by directors according to the policy and the division of tasks set forth by the Audit & Supervisory Committee 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. 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 which could have a serious impact to the business 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.

4. 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 Audit & Supervisory Committee Members by the Board of Managing Directors, which is comprised of the chairman, vice chairman, president, vice 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.

5. 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 and Regulations etc., and the Compliance Manual 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 Committee chaired by the president shall be established to foster a corporate culture that emphasizes compliance, enhancing compliance systems and monitoring the status of legal compliance. The Compliance Department shall be responsible for overall compliance management and shall examine various measures related to the 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, the Articles of Incorporation and other obligations.

(5) Should legal violations or other compliance-related facts be detected, an appropriate response shall be taken in accordance with employee regulations via the Management Help Line and other means as an internal reporting system.

6. System ensuring the appropriateness of operations throughout the Chugoku Bank Group comprising the Bank 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 and reporting matters to the Bank, those of importance shall be reported to the Bank's Audit & Supervisory Committee Members. The Bank shall conclude an audit agreement with each Group company and conduct internal audits.
- (3) Each group company shall formulate the basic risk management rules to assess and manage each type of risk as well as to establish the system of a comprehensive risk management while they deliberate and report the predetermined matters in accordance with the Chugoku Bank Group Management Regulations. The Bank shall respond appropriately to prevent the spread of damage in accordance with the Risk Management Manual in the event of unforeseen circumstances.
- (4) Business execution pursuant to a resolution of the Board of Directors in each Chugoku Bank Group company 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.
- (5) Each group company of the Chugoku Bank Group shall establish the Corporate Code of Conduct, the Guidelines for the Conduct of Bank Clerks and the Compliance Manual to ensure a compliance framework. The contents of employment regulations and other rules shall be in compliance with laws, regulations and the Articles of Incorporation.
- (6) 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.
- (7) 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 Audit & Supervisory Committee Members.
- (8) The Chugoku Bank Group shall comply with all laws, standards and other obligations concerning accounting practices and establish an internal control system to ensure the appropriateness of the Group's financial reporting.

7. Provisions for hiring assistants to the Audit & Supervisory Committee Members, if required, their independence from directors (excluding directors who are the Audit & Supervisory Committee Members) and ensuring of the effectiveness of directions to the assistants by the Committee Members

- (1) The Bank shall place assistants to the Audit & Supervisory Committee

Members in the Secretariat as employees who are to assist the Audit & Supervisory Committee Members with their duties.

- (2) Employees who are to assist the Audit & Supervisory Committee Members shall be stipulated to perform investigation, planning, management and instruction concerning the audits of the Committee Members, which is ordered by the Members, without performing additional work related to the execution of duties by directors. The Audit & Supervisory Committee Members shall be consulted and their agreement obtained before a decision is made regarding the evaluation, appointment and reassignment of employees who are to assist the Audit & Supervisory Committee Members with their duties to ensure independence from directors (excluding directors who are the Audit & Supervisory Committee Members.)

8. System for reporting to the Audit & Supervisory Committee Members

- (1) In accordance with the Standards of Reporting to Audit & Supervisory Committee Members, directors and employees shall report to the Audit & Supervisory Committee Members matters that may have a significant impact on the Bank's business and other matters essential to report in a timely manner. Notwithstanding the foregoing, the Audit & Supervisory Committee Members may also request reports from directors and employees as required.
- (2) In accordance with the Chugoku Bank Group Management Regulations and the standards related to deliberation and reporting for the subsidiaries, those who are reported from directors, Audit & Supervisory Board Members and the others in the subsidiaries shall report to the Audit & Supervisory Committee Members important matters which may have impact on the Bank's business and other matters essential to report, to the Audit & Supervisory Committee Members in a timely manner.
- (3) The Bank and the subsidiaries shall not give any disadvantageous treatment such as dismissal to directors and employees who reported the matter due to the report.

9. Matters for policies for procedures for advance payment or reimbursement of expense incurred from the execution of duties by the Audit & Supervisory Committee Members and for handling of the other expense or debt incurred regarding the execution of the duties

In accordance with the Auditing Standards for Audit & Supervisory Committee, the Bank shall include a budget in advance for the expenses acknowledged by the Audit & Supervisory Committee to be necessary for the execution of duties. Expenses expended urgently or temporary may be claimed to the Bank for reimbursement after the event.

10. System to ensure that audits of the Audit & Supervisory Committee Members are implemented effectively

The Bank works to ensure the effectiveness of the audits performed by the Audit & Supervisory Committee Members 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 Audit & Supervisory Committee Regulations and the Auditing Standards for Audit & Supervisory Committee. Representative Directors shall exchange opinions with the Audit & Supervisory Committee on a regular basis, and enhance mutual awareness of such matters as to the issues to be addressed by the Bank and improvement of the environment for Audit & Supervisory Committee Members.