

Corporate Governance

Basic views on corporate governance

As a regional bank headquartered in Shiga Prefecture, the Bank has a motto which carries on "Sampo yoshi" philosophy, a management philosophy embraced by Merchants in the Omi region of central Japan, which means to bring happiness to three sides: being good for the seller, the buyer, and society. The Bank made the motto "Be tough on ourselves, kind to others and serve society" the starting point for corporate social responsibility (CSR), making effort to realize mutual prosperity with the "regional community," "all employees," and the "environment" as in the Bank's Management Principles. For the purposes of ensuring sustainable growth and improvement in corporate value for the Bank over the medium and long term, we will expand and constantly upgrade our corporate governance standards based on the following basic views.

- (1)Respect shareholder rights and safeguard shareholder equality
- (2)Cooperate appropriately with stakeholders
- (3)Duly disclose information, including non-financial data, and ensure transparency and fairness of decision-making
- (4)Create an environment for allowing appropriate levels of risk-taking by management team members
- (5)Contribute to sustainable growth and the medium and long term improvement in corporate value, by prioritizing dialogue with shareholders

Internal control system status

At the Bank, in accordance with Companies Act and the Regulations for Enforcement of the Companies Act, the fundamental policy of our internal control structure was discussed and determined by the Board

of Directors. As detailed below, the Bank has a system to ensure appropriate practices in the execution of its daily business.

Response to internal control reporting system

According to the Internal Control Reporting System provided in the Financial Instruments and Exchange Act, listed companies are obliged to submit an "Internal Control Report," after receiving external audits and conducting self-evaluation of the validity of internal control systems, to ensure appropriate disclosure on financial matters.

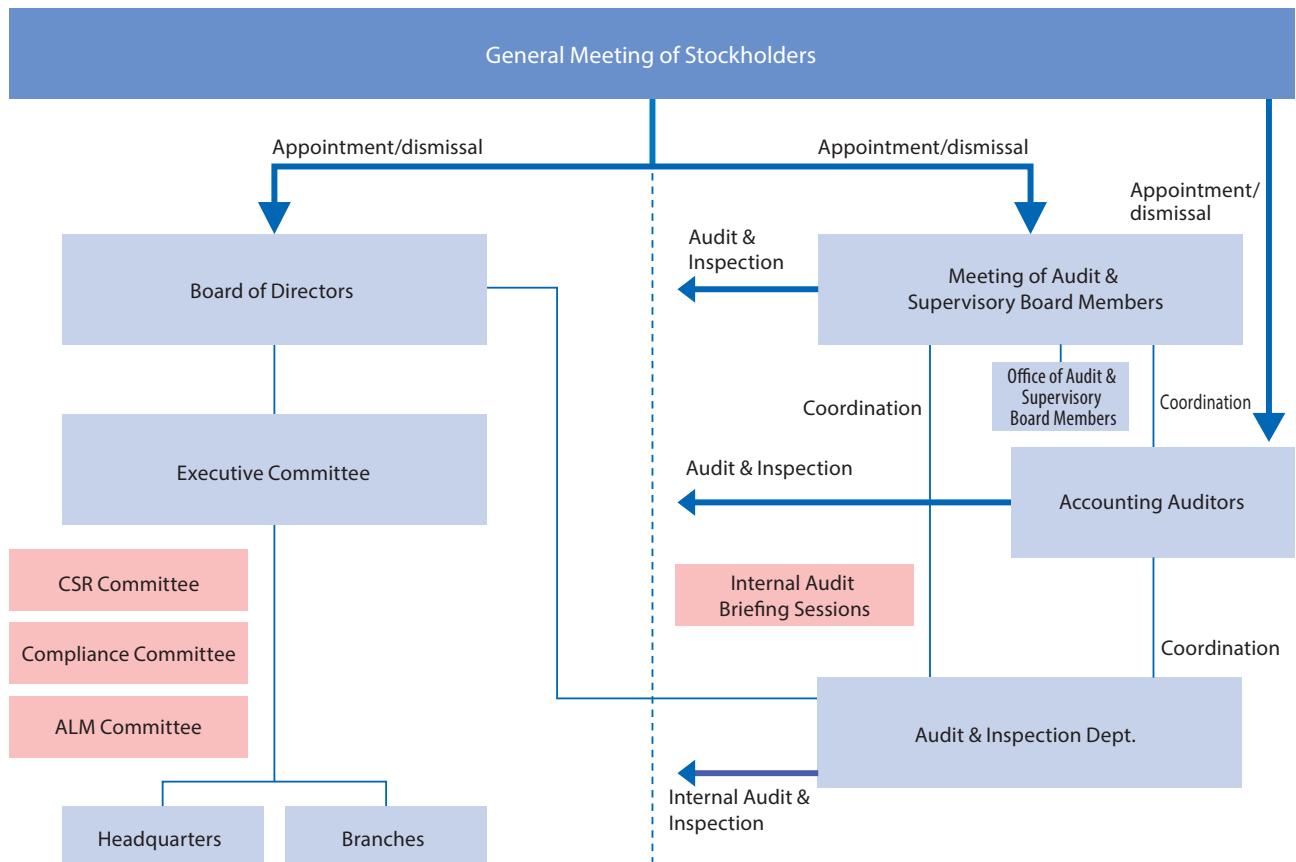
The Bank Group, in order to improve the reliability of its end-of-year financial reporting, established an Internal Controls & Asset Assessment Group in its Assets & Liabilities Managing Department to plan, supervise and evaluate the internal controls reports.

Timely and appropriate disclosure

We have made every effort to establish more transparent management and improve communications with customers, shareholders, and regional communities by positively and fairly disclosing management and other information. With the aim of ensuring that information is

disclosed in a fair, appropriate and timely manner, Shiga Bank established its "Regulations on the Disclosure of Management Information" and a system overseen by the General Planning Department.

■ Shiga Bank's corporate governance system (as of the end of June 2018) is shown in the chart below.



■ Company Organizations (as of the end of June 2018)

1. Board of Directors

The Board of Directors, with 11 members, including two from outside the Bank, meets once a month in principle. At the meetings, decisions are made on important business matters for conduct business. Audit & Supervisory Board Members attend all such meetings to monitor the performance of Directors.

2. Meeting of Audit & Supervisory Board Members

Meeting of Audit & Supervisory Board Members has four Audit & Supervisory Board Members, including two from outside the Bank. The Board meets once a month, in principle. Audit & Supervisory Board Members also attend other important meetings, including those of the Board of Directors and Executive Committee, as well as internal audit briefing sessions. They also audit the performance of Directors in their duties through ongoing examination of the Bank's business performance and financial position. Audit & Supervisory Board Members and Accounting Auditors hold regular meetings. Through these and other platforms, they maintain close partnership relations and exchange opinions and information. Audits are duly carried out in partnership with internal audit offices.

3. Executive Committee

The Executive Committee consists of the Chairman, President, Deputy President, Senior Managing Directors, and Managing Directors. It meets as necessary to make swift decisions about overall operations, including investment plans, new product development, business structural changes and monitoring the risk environment. Important items related to the execution of business are submitted to the Board of Directors.

4. Internal Audit System

Seeking to conduct its business in a sound and appropriate manner, the Bank established the Audit & Inspection Department to undertake internal audits. The Department performs audits of the Bank's branches to ensure that their internal control mechanisms are functioning properly and effectively, in accordance with annual internal audit plans approved each year by the Board of Directors. The internal Audit briefing sessions meets as a rule once a month with the attendance of the management team including the President of the Bank, and holds discussions on reported audit findings and on the status, problem points and issues of departments and branches subject to auditing. This ensures that risk is minimized, administrative duties are carried out reliably and business management is appropriate.

■ Systems to ensure the most appropriate work practices and outline of the operational status of the systems (as of the end of March 2018)

1. Systems to ensure the most appropriate work practices

As a regional bank headquartered in Shiga Prefecture, the Bank has a motto which carries on "Sampo yoshi" philosophy, a management philosophy embraced by merchants in the Omi region of central Japan, which means to bring happiness to three sides; the seller, the buyer, and society. We uphold the spirit of this tradition through our motto of "being tough on ourselves, kind to others and serving society," and made this the starting point for corporate social responsibility (CSR), making efforts to realize mutual prosperity with the "regional community," "all employees," and the "environment" as in the Bank's Management Principles. Based on this approach, the following (Internal Control System) structure has been put in place to ensure the most appropriate work practices of the Bank Group. Moreover, in order for the Bank Group to flexibly change its operational system in line with changes in the business environment, it will review the following systems as needed.

(1) A system to ensure that Directors of the Bank and its subsidiaries are executing their duties in accordance with the laws and regulations as well as the Bank Group's Articles of Incorporation and a system to ensure that employees of the Bank and its subsidiaries are executing their duties in accordance with the laws and regulations as well as the Bank Group's Articles of Incorporation

We have established a Groupwide integrated compliance program, under which companies of the Group has established compliance frameworks, rules, and educational and training programs.

As the overall coordinating office for compliance, the Bank's Assets & Liabilities Managing Department provides advice and guidance as needed in the establishment of compliance frameworks at Group companies, compilation of regulations and education and training of employees.

The General Planning Department of the Bank and the subordinate offices form a clear picture of day-to-day compliance at Group companies, and when necessary provide advice and guidance.

The Bank's Audit & Supervisory Board Members and Audit & Inspection Dept. carry out audits for the purpose of contributing to sound and proper banking operations at the Group.

Also in place is an internal reporting system (compliance helpline) for use by all employees of the Group.

The Bank Group has established a system to eliminate and resolutely cut off any relations with antisocial forces that threaten the order and security of civil society.

(2) A system to store and maintain information related to the Bank's Directors and the execution of their duties

The Bank ensures appropriate document management by following its "Administrative Guidance Outline" regarding methods of storage and management of important documents and data, comprising the minutes of meetings of the Board of Directors, Executive Committee, and other documents from meetings of importance to business operations.

(3) A system to ensure that regulations related to risk management of the Bank and its subsidiaries are being followed

The Bank has compiled a basic set of Risk Management Rules. Based on this, the Bank has established specific management systems for each major category of risk and designated the Assets & Liabilities Managing Department as the unit in charge of overall risk management. This ensures comprehensive risk management. Important matters relating to risk management are subject to agenda discussion and reporting at the Board of Directors meeting.

With regard to risk management of Group companies, based on the Risk Management Rules, the General Planning Department of the Bank ensures appropriate management of each category of risk in partnership with the affected departments.

Based on the reports from Group companies, or the findings of monitoring, etc., the General Planning Department forms a clear idea of risk situations, and if it considers that such risk could impact the management of the Bank, measures are in place for their reporting to the Executive Committee or if necessary, the Board of Directors.

(4) A system to ensure that the Directors of the Bank and its subsidiaries execute their duties in an effective manner

To ensure the effective performance of duties by Directors, the Group has clarified what items should be subject to resolution by the Board of Directors meeting under the "Board of Directors Regulations." The Executive Committee, comprising Executive Directors is vested with dealing with the detail of the matters to be decided by the Board of Directors of the Bank and with daily operational decision-making.

To ensure efficiency, duties are assigned to the Executive Directors based on their field of responsibility.

By setting consolidated-basis business targets in the Medium-Term Business Plan, we are working to improve efficiency on a Groupwide basis.

(5) A reporting system on the matters related to the execution of duties of the Directors of the Bank's subsidiaries to the Bank and auxiliary system to ensure that the Shiga Bank Group, consisting of the parent Bank and its subsidiaries uses the most appropriate work practices in the execution of their business

To ensure that operations are carried out appropriately across the Group, internal management treats the Group as a single entity, and the same unified standards have been set Groupwide for legal and regulatory compliance and risk management.

The Bank Group has defined "Management and Operational Regulations for Affiliates," and aims to create a cross-organizational integrated management system for compliance, customer protection, risk management and other issues.

The Representative Directors of Group companies attend the branch and section managers' meeting, CSR Committee, and other important meetings.

Regular operational audits are also carried out by the Bank's Audit & Supervisory Board Members and Audit & Inspection Dept. into Group companies.

Group companies are required to report on certain matters if so demanded by the Bank, in addition to releasing quarterly financial and business statements and year-end results reports.

(6) Matters related to the employees in the event that the Bank's Audit & Supervisory Board Members request the appointment of employees of the Bank to assist in their tasks, matters related to the independence of such employees from the Directors, and matters related to ensuring the effectiveness of the instructions of the Audit & Supervisory Board Members with regard to the employees

The Bank creates permanent posts for employees independent from Executive Directors, who assist the Audit & Supervisory Board Members in the performance of their duties, ensuring adequate mechanisms are in place for performance of duties by Audit & Supervisory Board Members.

Compensation for employees who act as assistants to Audit & Supervisory Board Members in the performance of their duties is decided in consultation with the meeting of the Audit & Supervisory Board.

Under Bank policy, employees who assist Audit & Supervisory Board Members perform their duties in line with directions given by the Audit & Supervisory Board Members.

(7) A system to facilitate reporting to the Audit & Supervisory Board Members of the Bank by the Directors and employees of the Bank and the Directors, the Audit & Supervisory Board Members, and employees of subsidiaries (including those who are receive reports from the above-mentioned officials), an auxiliary system for reports to other Audit & Supervisory Board Members, a system to ensure the effective execution of any audit carried out by the Audit & Supervisory Board Members, and a system to ensure that persons who make reports do not receive disadvantageous treatment as a result of making such reports

The Audit & Supervisory Board Members of the Bank also attend important meetings of each Group company to gain a clear picture of the Bank Group's business status and to ensure the effectiveness of Audit & Supervisory Board Members in the performance of their duties.

Audit & Supervisory Board Members of the Bank likewise hold regular meetings to exchange opinions with Representative Directors of the Bank.

To ensure reporting to Audit & Supervisory Board Members, the Bank also has in place a system whereby Audit & Supervisory Board Members are included in the circulars of requests for managerial decision and other important reporting materials compiled by group companies.

The Bank Group has set up an internal reporting system (compliance helpline) that can be used by all employees of the group companies, for reporting of issues to the Bank's Audit & Supervisory Board Members. No prejudicial measures may be taken against anybody on grounds of their making use of this facility.

(8) Matters related to policies on advance payments, the reimbursement of expenses incurred in the execution of duties of the Bank's Audit & Supervisory Board Members, expenses incurred in relation to the execution of other duties, or the disposal of debts

If Audit & Supervisory Board Members make requests to the Bank for advance payments for expenses in relation to the execution of their duties based on the Article 388 of the Companies Act, the Bank shall promptly pay the relevant expenses, except in cases where the relevant expenses are not necessary for the execution of the duties of the Audit & Supervisory Board Members.

2. Outline of the operational status of the systems to ensure the most appropriate work practices

The outline of the operational status of the systems to ensure the most appropriate work practices during the fiscal year ended March 31, 2018 (from April 1, 2017 to March 31, 2018) is as follows:

(1) Compliance system

The Bank follows a compliance program compiled every six months and worked to raise awareness of employees by implementing training concerning compliance system of the Bank, harassment, leanings from mistakes, and dealing with elderly people.

In preparation for an amendment of the Civil Code (related to Monetary Claims Act), the Bank has also revised arrangements regarding third party guarantees.

(2) Risk management system

Based on the Bank's "Risk Management Rules," a resolution is passed at the Board of Directors' meeting held semiannually regarding "Policies on Capital Management and Risk Management," which relate to management of specific risk associated with strategic targets.

The ALM Committee meets six times a year and confirms the risk status in each category and a quarterly report is also submitted to the Board of Directors on matters relating to various regulatory benchmarks for meeting capital adequacy requirements and matters of status of at-risk amounts.

(3) A system to ensure that the Directors execute their duties in an effective manner

At the Bank, a regular meeting of the Board of Directors is held 12 times a year and an Executive Committee, entrusted with decision-making regarding the details of resolutions of the Board of Directors and regarding day-to-day administrative operations, is held 57 times.

Executive Directors of the Bank have specific duties and areas of competence allocated to them based on a division of responsibility, for greater efficiency.

(4) A system to ensure the most appropriate work practices in the Bank Group

The Representative Directors of the Group companies attend the Bank branch and section managers' meeting and CSR Committee meeting.

A meeting of presidents of affiliated companies attended by Executive Directors and Representative Directors is held, and discussions are held to clarify management issues and develop responses measures.

In addition, operational audits are carried out by Audit & Supervisory Board Members of the Bank and the Audit & Inspection Department at each Group company as part of measures to create a system ensuring propriety in performance of operations across the Bank Group.

(5) Performance of duties by Audit & Supervisory Board Members

The Audit & Supervisory Board Members carry out audits based on auditing plans compiled at the Meeting of Audit & Supervisory Board. The audit and inspection offices and accounting auditors proactively and regularly exchange opinions and information (under the "three-pillar" audit system), enhancing the effectiveness of auditing.

The Audit & Supervisory Board Members proactively exchange opinions with Representative Directors on a regular basis.

Shiga Bank Disclosure Policy

1. Basic approach

Based on our social responsibility and public mission as a regional financial institution, we aim to ensure highly transparent disclosure. We shall ensure timely, due, continuous, fair and accurate disclosure of information, to foster understanding and appropriate evaluation of Bank operations by all of our stakeholders, including our customers, shareholders, investors and local communities.

2. Information to be disclosed

Pursuant to laws and regulations including the Banking Act and the Financial Instruments and Exchange Law as well as "Rules on Timely Disclosure of Corporate Information by Issuers of Listed Securities," etc. (hereinafter "Timely Disclosure Rules, etc.") stipulated by the Tokyo Stock Exchange, the Bank discloses its management information.

To the extent possible, we shall also ensure fair and timely disclosure of information that we judge to be useful to shareholders, even if such disclosure does not involve important information for which disclosure is mandatory under the laws and ordinances and timely disclosure rules, etc.

3. Method of disclosure

In addition to timely and due disclosure as required under the laws and ordinances and timely disclosure rules, etc., we post disclosure information on the Bank website.

We also take measures to ensure fair and highly pertinent disclosure using appropriate methods even for information additional to the above that we are disclosing on a discretionary basis.

4. Disclosure procedures and systems

The Bank has compiled its Regulations on the Disclosure of Management Information, and has established and developed procedures and systems for timely and due disclosure, with the General Planning Department taking responsibility for disclosure of management information.

To ensure the adequacy of disclosure, we regularly examine it for appropriateness and effectiveness, in addition to, where necessary, consulting with auditing companies and other specialists.

5. Statement regarding forecasts

Information carried on the Bank's website and in the integrated report contains statements relating to the Bank and other Group companies' overall financial position and forecasts.

Forecast statements cannot be construed as guarantees that future earnings targets will be met. They include elements of risk and uncertainty, and actual results may differ from forecasts due to changes in the business environment faced by the Bank and other factors.