

**Last Update: September 19, 2019**

**Aozora Bank, Ltd.**

Representative Director and President

Shinsuke Baba

Contact: Business Strategy Division 03-6752-1111

Securities Code: 8304

<http://www.aozorabank.co.jp/english/>

The corporate governance of Aozora Bank, Ltd. (the “Bank”) is described below.

## **I. Basic Policy on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information**

### **1. Basic Policy**

The Bank is firmly established in the Japanese financial system, and the Bank is committed to contributing to the economic and social growth of the country through its business operations. The Bank also reaffirms its commitment to a strong risk management framework and the maintenance of management soundness in order to preserve its financial strength and institutional discipline under a range of future conditions, while providing differentiated and specialized financial services to its customers. By implementing these policies, the Bank aims to further enhance its corporate value in response to its shareholders’ mandate.

The objective of the Bank's corporate governance policy is to ensure management discipline and create a framework for enhanced oversight, in order to conduct daily business operations based on the above management philosophy.

For this purpose, the Bank continues to work towards a more transparent corporate governance structure by focusing on the proper establishment and operation of its governance framework as the primary management initiative.

Management adheres to the highest standards of compliance in all areas of business execution. The management team identifies risks and assesses the potential impact on the Bank’s business, maintaining a strict internal control system which ensures optimal transparency and a framework for effective management of risk-return balance. To further enhance efficiency and transparency through the separation of management oversight and business execution, the Bank appoints a number of outside directors to the Board of Directors. Outside directors are independently-positioned directors who provide fair advice and suggestions based on their financial knowledge and experience, as well as their substantial expertise and insight into global executive management. In accordance with the standards set forth by the Tokyo Stock Exchange (TSE), all qualified outside directors are designated independent directors with the approval of the Board of Directors and registered with the TSE.

The Audit & Supervisory Board and its members monitor and verify the execution of director duties, mainly from a legal perspective. Board-level committees such as the Nomination & Remuneration Committee and the Audit & Compliance Committee mainly comprise outside directors, and are entrusted by the Board of

Directors to perform supplementary supervision and oversight with respect to representative directors and executive officers.

#### **[Reasons for Non-compliance with the Principles of the Corporate Governance Code]**

The Bank makes continuous efforts to strengthen corporate governance and judges that it is compliant with all the principles of the Corporate Governance Code.

#### **[Disclosure Based on the Principles of the Corporate Governance Code]**

##### **Principle 1.4 (Cross-Shareholdings)**

It is the policy of the Bank to hold cross-shareholding stocks only when: (i) forming a strategic capital or business alliance; or (ii) it is determined to be economically rational from the standpoint of comprehensive transactions.

In cases where the Bank holds such stocks, the Investment Committee, a sub-committee of the Management Committee, makes a comprehensive judgement on the appropriateness of the investment based on the purpose for holding, status, risk-based profitability, and development of each transaction. In addition, the Investment Committee regularly monitors the status, risk-based profitability and other factors regarding the Bank's after careful consideration to the impact on markets and other relevant matters. The Investment Committee also reports the results of monitoring risk-based profitability and transaction policy to the Board of Directors on a regular basis. The Board of Directors, in turn, individually reviews the risk based profitability based on RORA (Note). The Bank sold some cross-shareholding stocks in FY ended March 2019 and held 12 names (approximately 1% of the total net assets) as of the end of March 31, 2019. (Note) RORA : Return on Risk-weighted Assets

This index shows how much income the Bank earns with respect to gains against a shareholding risk, which is calculated by a formula "Annual Revenue divided by Risk Asset Amount".

##### **Principle 1.7 (Related Party Transactions)**

The Bank conducts timely disclosure of material facts related to transactions with its subsidiaries and major shareholders (related party transactions) and transactions involving conflicts of interest with directors, after confirming such transactions with directors and respective business divisions and making regular reports to the Board of Directors in accordance with the relevant laws and regulations. As a rule, the Bank obtains advance Board approval for transactions involving conflicts of interest with directors, in accordance with the Regulations of the Board of Directors.

##### **Principle 2.6 (Enhanced Function as Asset Owner of Corporate Pension Funds)**

The Bank appoints asset management experts to its Aozora Pension Fund Office with the objective of enhancing its functions as an asset owner of corporate pension funds. In addition, the Bank has established an Asset Management Committee, which consists of highly-experienced members in areas such as human resources, financial control, risk management and market transactions. The Asset Management Committee performs duties including deciding asset allocation, selecting appropriate pension fund trustees and monitoring the status of their fund management with the help of external asset management consultants. It also selects pension fund trustees that have adopted Japan's stewardship code and properly monitors their performance through stewardship activities and quarterly reporting meetings.

### Principle 3.1 (i) (Management Philosophy, Strategy, and Plan)

On May 14, 2018, the Bank announced its Mid-Term Plan (FY2018-20): “Primary Secondary Bank: the partner of choice” – *Leveraging Core Competencies*.” The details are explained on the Bank’s website: ([http://www.aozorabank.co.jp/about/newsrelease/2018/pdf/18051404\\_n.pdf](http://www.aozorabank.co.jp/about/newsrelease/2018/pdf/18051404_n.pdf)).

The summary is shown below.

#### 1. Further Embracing Core Values

Aozora will strive to achieve sustainable growth as the “Primary Secondary Bank: the partner of choice” by further leveraging its core competencies and unique market position relative to that of megabanks and regional financial institutions in order to contribute to the development of Japan’s economy and society.

#### 2. Key Strategies

##### Sharpen “6 Areas of Focus”

The Bank will embrace and further enhance the “6 Areas of Focus” of its current business model. The Bank will promote selection and concentration based on redeployment of resources in line with the Aozora’s risk appetite framework with the intention of providing differentiated products and services and leveraging the Bank’s core competencies.

##### <6 Areas of Focus>

1. Retail Banking Focused on Mass Affluent Senior Customers
2. Problem Solving Business for Corporate Customers
3. Strengthening Partnerships with Regional Financial Institutions
4. Evolution of Specialty Finance
5. Sustained Growth of International Operations
6. Promoting Risk Consulting and Pursuing Globally Diversified Investments

##### Enhance risk management

In order to preserve its financial strength and institutional discipline under a broad range of future market and economic conditions, Aozora intends to continue conducting risk management based on discipline and best practices in all of its investment and lending activities. These activities align with the Bank’s commitment to a strong risk management framework and the maintenance of management soundness, predictive control and proactive risk management.

##### Build for the future

Building for the future, Aozora launched its Internet banking business in July 2018 through GMO Aozora Net Bank jointly with GMO Internet Group. The new bank aims to become a “No.1 technology bank benefitting customers” by combining and leveraging the strengths of each partner.

In addition, Aozora will continue to selectively explore growth opportunities in both the domestic and overseas markets and deploy capital for investments or M&A in order to enter new businesses which are expected to have synergy or the potential to further strengthen or leverage the Bank’s business model.

### Principle 3.1 (ii) (Basic Policy and Guidelines)

Please refer to “I.1. Basic Policy” of this report and “Principle 5.1 (Constructive Dialogue with Shareholders)” below.

**Principle 3.1 (iii) (Procedures for Determining Remuneration for Senior Management and Directors)**

Please refer to “II.1. Organization Structure and Business Operations [Director Remuneration]” of this report.

**Principle 3.1 (iv) (Policies and Procedures for Nominating Director and Audit & Supervisory Board Member Candidates, and Appointing and Dismissing Senior Management)**

Please refer to “II.2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration <Basic Policy for Nominating Directors and Audit & Supervisory Board Member Candidates, and Appointing and Dismissing Senior Management Including the CEO (Executive Officers at the Managing Executive Officer level or higher)> <Procedure for Nominating Directors, and Appointing and Dismissing Senior Management Including the CEO> <Procedure for Nominating Audit & Supervisory Board Members>” of this report.

**Principle 3.1 (v) (Reasons for Appointing, Dismissing and Nominating Individual Director and Audit & Supervisory Board Member Candidates, and Appointing and Dismissing Senior Management)**

Please refer to the convocation notice for the Ordinary General Meeting of Shareholders for proposals regarding the appointment of Director and Audit & Supervisory Board Member candidates, available on the Bank’s website at the link below.

<http://www.aozorabank.co.jp/english/ir/share/stockmtg/>

**Supplementary Principle 4.1.1 (Disclosure of Summary and Scope of Matters Delegated to Management)**

Please refer to “IV.1.2. Framework for Ensuring the Effective Execution of Director Duties” of this report.

**Principle 4.9 (Independence Criteria)**

Please refer to “II.1 Organization Structure and Business Operations [Independent Directors/Audit & Supervisory Board Members]” of this report.

**Supplementary Principle 4.11.1 (Policies and Procedures for Nominating Directors)**

Please refer to “II.2 Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration <Basic Policy for Nominating Directors and Audit & Supervisory Board Member Candidates, and Appointing and Dismissing Senior Management Including the CEO (Executive Officers at the Managing Executive Officer level or higher)> <Procedure for Nominating Directors, and Appointing and Dismissing Senior Management Including the CEO> of this report.

**Supplementary Principle 4.11.2 (Directors Holding Concurrent Positions at Other Companies)**

Please refer to “II.1 Organization Structure and Business Operations [Directors] Outside Directors’ Relationship with the Bank (2)” of this report.

**Supplementary Principle 4.11.3 (Analysis and Evaluation of Board Effectiveness)**

The Bank works to further enhance the effectiveness of its Board of Directors through a continuous process (PDCA cycle) of analyzing and evaluating Board effectiveness each fiscal year as well as considering and providing solutions to new and existing issues. The Board of Directors strives to fulfill its fiduciary duties and accountability to the Bank’s shareholders and performs self-evaluations of Board effectiveness aimed at promoting sustainable growth and enhancing the Bank’s corporate value over the mid to long term. The Board continues to assess its management and oversight functions on the basis of the full utilization of directors’ and Audit and Supervisory Board members’ knowledge, expertise and

experience, and takes into consideration the views of each Board member. The results of these self-evaluations are shared in thorough Board discussions.

The Board of Directors aims to ensure objectivity and transparency through the Board which comprises 50% of outside members.

In addition to retaining an Audit and Supervisory Board, the Bank also has a Nomination & Remuneration Committee, which mainly comprises outside directors and is also chaired by an outside director, as well as an Audit and Compliance Committee, which comprises only outside directors. Both committees act to complement and check the oversight of executive officers including representative directors.

Moreover, the Bank convened four “outside directors’ meetings” throughout FY2018 to allow for the discussion and exchange of views on key business issues, management of the Board and succession of the CEO from an outside perspective.

In FY2018, the Board assessed that its roles and responsibilities were properly fulfilled under the aforementioned framework through constructive discussions and exchange of ideas on important issues including business strategy as well as the proper oversight and monitoring of management executives. The Board also assessed that overall Board management was proper and effective.

Going forward, the Bank will strive to make the Board’s roles and responsibilities further effective and proper by utilizing committees under the Board as well as the “outside directors’ meeting.”

#### **Supplementary Principle 4.14.2 (Training Policy for Directors and Audit & Supervisory Board Members)**

Please refer to “II.1 [Support Framework for Outside Directors and Outside Audit & Supervisory Board Members]” of this report.

#### **Principle 5.1 (Constructive Dialogue with Shareholders)**

<Policies to promote constructive dialogue with shareholders>

- The Bank takes every opportunity to engage shareholders in constructive dialogue, including at the General Shareholders’ Meeting, in order to contribute to sustainable growth and the further enhancement of the Bank’s corporate value over the medium to long-term.
- The Bank gives due consideration to the views and concerns expressed in its communication with shareholders, and provides clear explanation of the Bank’s management policy in an effort to gain the understanding of shareholders. The Bank is also committed to responding appropriately to shareholders and other stakeholders, respecting each individual point of view.
- The Bank promotes constructive dialogue with shareholders through the following measures.
  - The Chief Executive Officer (CEO) oversees the Bank’s overall communication with shareholders to ensure that constructive dialogue is achieved.
  - The Chief Financial Officer (CFO) oversees investor relations activities. The Corporate Communication Division, in charge of investor relations, cooperates with the Financial Control and Financial Management divisions and, in conjunction with other relevant divisions (such as business strategy and legal divisions), supports the Bank’s IR activities and constructive dialogue between shareholders and management.
  - In addition to individual meetings with shareholders and institutional investors, the Bank holds conference calls and presentations for investors and analysts. The Bank also actively participates in individual and institutional investor conferences held by securities firms, towards further enhancing communication with shareholders and investors.

- The Bank discloses information related to presentation meetings via its website and its shareholder newsletter (“Aozora Tsushin”). Using questionnaires, the Bank makes an effort to understand the views and concerns of its shareholders.
- The CEO and CFO report the details of dialogue with shareholders to the Board of Directors and Management Committee. The Bank considers appropriate responses to the views and concerns expressed by shareholders, reflecting them in business operations as necessary.
- The Bank carefully manages insider information obtained in its dialogue with shareholders, in accordance with the Bank’s internal procedures for preventing insider trading, and verifies information to be disclosed through outside counsel.

## 2. Capital Structure

Percentage of Overseas Shareholders	More than 30%
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### [Status of Major Shareholders]

Company Name	Number of Shares	Percentage (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	9,474,100	8.11
Japan Trustee Services Bank, Ltd. (Trust Account)	6,279,100	5.38
Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,218,400	1.90
Japan Trustee Services Bank, Ltd. (Trust Account 5)	2,168,400	1.85
STATE STREET BANK WEST CLIENT-TREATY 505234	2,001,619	1.71
JP MORGAN CHASE BANK 385151	1,827,670	1.56
JPMorgan Securities Japan Co., Ltd.	1,615,584	1.38
Japan Trustee Services Bank, Ltd. (Trust Account 1)	1,439,200	1.23
Japan Trustee Services Bank, Ltd. (Trust Account 2)	1,358,200	1.16
GOLDMAN SACHS INTERNATIONAL	1,328,704	1.13

Controlling Shareholder (excluding Parent Company)	None
Parent Company	None

Supplementary Explanation:

“Status of Major Shareholders” is based on total shares outstanding (excluding treasury shares) recorded in the Shareholder Registry as of March 31, 2019.

Nomura Securities Co., Ltd. submitted a Major Shareholders Report dated August 3, 2018, stating their holdings with joint shareholder Nomura Asset Management Co., Ltd. as of July 31, 2018, as follows. They are not included, however, in the above table of major shareholders as the Bank was unable to confirm the actual number of shares held by the aforementioned shareholders as of March 31, 2019. The proportion of shares held based on the Major Shareholders Report to the number of shares issued (includes treasury shares) has been rounded to two decimal places.

<Company Name> Nomura Securities Co., Ltd.  
 <Address> 9-1, Nihonbashi 1-Chome, Chuo Ward, Tokyo  
 <Number of Shares> 177,633  
 <Shareholding Ratio> 0.15%

<Company Name> Nomura Asset Management Co., Ltd.  
 <Address> 12-1, Nihonbashi 1-Chome, Chuo Ward, Tokyo  
 <Number of Shares> 5,752,400  
 <Shareholding Ratio> 4.86%

Mitsubishi UFJ Financial Group, Inc. submitted a Change Report dated December 17, 2018, stating their holdings with joint shareholder Mitsubishi UFJ Trust and Banking Corporation, Mitsubishi UFJ Kokusai Asset Management Co., Ltd., and Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. as of December 10, 2018, as follows. They are not included, however, in the above table of major shareholders as the Bank was unable to confirm the actual number of shares held by the aforementioned shareholders as of March 31, 2019. The proportion of shares held based on the Change Report to the number of shares issued (includes treasury shares) has been rounded to two decimal places.

<Company Name> Mitsubishi UFJ Trust and Banking Corporation  
 <Address> 4-5, Marunouchi 1-Chome, Chiyoda Ward, Tokyo  
 <Number of Shares> 3,674,000  
 <Shareholding Ratio> 3.11%

<Company Name> Mitsubishi UFJ Kokusai Asset Management Co., Ltd.  
 <Address> 12-1, Yuraku-cho 1-Chome, Chiyoda Ward, Tokyo  
 <Number of Shares> 857,800  
 <Shareholding Ratio> 0.73%

<Company Name> Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.  
 <Address> 5-2, Marunouchi 2-Chome, Chiyoda Ward, Tokyo  
 <Number of Shares> 158,400  
 <Shareholding Ratio> 0.13%

Sumitomo Mitsui Trust Asset Management Co., Ltd. submitted a Change Report dated December 20, 2018, stating their holdings with joint shareholder Nikko Asset Management Co., Ltd. as of December 14, 2018, as follows. They are not included, however, in the above table of major shareholders as the Bank was unable to confirm the actual number of shares held by the aforementioned shareholders as of March 31, 2019. The proportion of shares held based on the Change Report to the number of shares issued (includes treasury shares) has been rounded to two decimal places.

<Company Name> Sumitomo Mitsui Trust Asset Management Co., Ltd.  
 <Address> 1-1, Shibakoen 1-Chome, Minato Ward, Tokyo  
 <Number of Shares> 3,790,000  
 <Shareholding Ratio> 3.20%

<Company Name> Nikko Asset Management Co., Ltd.

<Address>	7-1, Akasaka 9-Chome, Minato Ward, Tokyo
<Number of Shares>	1,854,400
<Shareholding Ratio>	1.57%

BlackRock Japan Co., Ltd. submitted a Change Report dated January 25, 2019, stating their holdings with joint shareholder BlackRock Investment Management LLC, BlackRock Fund Managers Limited, BlackRock (Luxembourg) S.A., BlackRock Life Limited, BlackRock Asset Management Ireland Limited, BlackRock Fund Advisors, BlackRock Institutional Trust Company, N.A., BlackRock Investment Management (UK) Limited and iShares (DE) I Investmentaktiengesellschaft mit Teilgesellschaftsvermögen as of September 15, 2017, as follows. They are not included, however, in the above table of major shareholders as the Bank was unable to confirm the actual number of shares held by the aforementioned shareholders as of March 31, 2019. The Bank consolidated every ten common shares into one common share, effective October 1, 2017. The number of shares held has not reflected the share consolidation. The proportion of shares held based on the Change Report to the number of shares issued (includes treasury shares) has been rounded to two decimal places.

<Company Name>	BlackRock Japan Co., Ltd.
<Address>	8-3, Marunouchi 1-Chome, Chiyoda Ward, Tokyo
<Number of Shares>	27,600,000
<Shareholding Ratio>	2.33%

<Company Name>	BlackRock Investment Management LLC
<Address>	1 Square Drive, Princeton University, New Jersey, U.S.A.
<Number of Shares>	1,327,730
<Shareholding Ratio>	0.11%

<Company Name>	BlackRock Fund Managers Limited
<Address>	12 Throgmorton Avenue, London, U.K.
<Number of Shares>	1,616,894
<Shareholding Ratio>	0.14%

<Company Name>	BlackRock (Luxemburg) S.A.
<Address>	35A, Route J.F. Kennedy Luxembourg L-1855
<Number of Shares>	1,447,000
<Shareholding Ratio>	0.12%

<Company Name>	BlackRock Life Limited
<Address>	12 Throgmorton Avenue, London, U.K.
<Number of Shares>	1,739,072
<Shareholding Ratio>	0.15%

<Company Name>	BlackRock Asset Management Ireland Limited
<Address>	JPMorgan House, International Financial Services Centre, Dublin, Ireland
<Number of Shares>	4,770,255
<Shareholding Ratio>	0.40%



<Company Name> BlackRock Fund Advisors  
 <Address> 400 Howard Street, San Francisco California, U.S.A.  
 <Number of Shares> 17,264,000  
 <Shareholding Ratio> 1.46%

<Company Name> BlackRock Institutional Trust Company,N.A.  
 <Address> 400 Howard Street, San Francisco California, U.S.A.  
 <Number of Shares> 22,658,331  
 <Shareholding Ratio> 1.92%

<Company Name> BlackRock Investment Management (UK) Limited  
 <Address> 12 Throgmorton Avenue, London, U.K.  
 <Number of Shares> 4,367,124  
 <Shareholding Ratio> 0.37%

<Company Name> iShares (DE) I Investmentaktiengesellschaft mit Teilgesellschaftsvermögen  
 <Address> 11F Reambachplatz, Munich, The Federal Republic of Germany  
 <Number of Shares> 3,561,000  
 <Shareholding Ratio> 0.30%

Major Shareholders Report received since July 1, 2019 have not been reflected.

### 3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange First Section
Fiscal Year-End	March
Type of Business	Banks
Number of Employees (Consolidated) as of the End of Previous Fiscal Year	More than 1000
Sales (Consolidated) as of the End of Previous Fiscal Year	From ¥100 billion to less than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of Previous Fiscal Year	From 10 to less than 50

### 4.Measures to Protect Minority Shareholders when Conducting Transactions with Controlling Shareholder

### 5. Other Special Circumstances which may have Material Impact on Corporate Governance

#### 1. Status of Major Shareholders

“Status of Major Shareholders” in “2. Capital Structure” above is based on total shares outstanding (excluding treasury shares) recorded in the Shareholder Registry as of March 31, 2019.

#### 2. Treasury Shares

As of March 31, 2019, the Bank has 1,611,667 treasury shares (equivalent to 1.36% of total shares outstanding) allocated to future stock options.

## II Corporate Governance Framework and Business Management Organization for Decision-making, Business Execution, and Management Oversight

### 1. Organization Structure and Business Operations

Organization Structure	Company with Audit & Supervisory Board
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#### [Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	12
Term of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	Chairman (except when concurrently serving as President)
Number of Directors	8
Appointment of Outside Directors	Appointed
Number of Outside Directors	4
Number of Independent Directors	4

#### Outside Directors' Relationship with the Bank (1)

Name	Attribute	Relationship with the Bank*										
		a	b	c	d	e	f	g	h	i	j	k
Shunsuke Takeda	From another company								Δ			
Hiroyuki Mizuta	From another company								○			
Ippei Murakami	From another company											
Tomonori Ito	From another company											

#### \*Categories for "Relationship with the Bank"

“○” Director presently falls or has recently fallen under the category

“Δ” Director fell under the category in the past

“●” A close relative of the director presently falls or has recently fallen under the category

“▲” A close relative of the director fell under the category in the past

- Executive of the Bank or its subsidiaries
- Non-executive director or executive of a parent company of the Bank
- Executive of a fellow subsidiary company of the Bank
- Party whose major client is the Bank or an executive thereof
- Major client of the Bank or an executive thereof
- Consultant, accountant or legal professional who receives a large amount of monetary compensation or other assets from the Bank, in addition to director remuneration
- Major shareholder of the Bank (or an executive of a major shareholder in the case of a corporate shareholder)

- h. Executive of a client of the Bank (who does not fall under categories d, e, or f) (the director himself/herself only)
- i. Executive of a company with which the Bank has mutually appointed outside directors (the director himself/herself only)
- j. Executive of a company or organization that receives donations from the Bank (the director himself/herself only)
- k. Others

Outside Directors' Relationship with the Bank (2)

Name	Independent Director	Supplementary Explanation	Reasons for Appointment
Shunsuke Takeda	Yes	<b>Main Concurrent Post</b> Advisor, ORIX Corporation  <b>Relationship with Aozora customers, etc.</b> Former Chairman and Representative Executive Officer of DAIKYO INCORPORATED, a company with which the Bank conducts lending and other transactions	Mr. Shunsuke Takeda was appointed for his substantial experience, achievements, and expertise in the executive management of financial institutions and business corporations. He was selected as an independent director by a resolution of the Board of Directors as it was determined that there is no risk of a conflict of interest with general shareholders under the Enforcement Rules for Securities Listing Regulations of the Tokyo Stock Exchange.
Hiroyuki Mizuta	Yes	<b>Main Concurrent Post</b> Representative Director and Chairman of Tokyo Tower Co., Ltd.  <b>Relationship with Aozora customers, etc.</b> Representative Director and Chairman of Tokyo Tower Co., Ltd., a company with which the Bank conducts lending and other transactions	Mr. Hiroyuki Mizuta was appointed for his substantial experience, achievements and expertise in the executive management of banks and business corporations. He was selected as an independent director by a resolution of the Board of Directors as it was determined that there is no risk of a conflict of interest with general shareholders under the Enforcement Rules for Securities Listing Regulations of the Tokyo Stock Exchange.
Ippei Murakami	Yes	<b>Main Concurrent Post</b> Special Advisor, Nisshin Seifun Group Inc.  <b>Relationship with Aozora customers, etc.</b> None	Mr. Ippei Murakami was appointed for his substantial experience, achievements and expertise in the executive management of business corporations. He was selected as an independent director by a resolution of the Board of Directors as it was determined that there is no risk of a conflict of interest with general shareholders under the Enforcement Rules for Securities Listing Regulations of the Tokyo Stock Exchange.

Tomonori Ito	Yes	<b>Main Concurrent Post</b> Professor, Hitotsubashi University Business School Department of International Corporate Strategy  Outside Director, Electric Power Development Co., Ltd.  <b>Relationship with  Aozora customers, etc.</b> None	Mr. Tomonori Ito was appointed for his substantial experience and achievements in domestic and overseas financial institutions and expertise as a graduate school professor. He was selected as an independent director by a resolution of the Board of Directors as it was determined that there is no risk of a conflict of interest with general shareholders under the Enforcement Rules for Securities Listing Regulations of the Tokyo Stock Exchange.
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\* In accordance with the Tokyo Stock Exchange's Guidebook on Timely Corporate Disclosure Volume 3, Chapter 1 ("Matters to Consider when Securing Independent Officers, Section 1.4 Information Regarding Company Affiliations"), 'Relationship with Aozora customers, etc.' does not include companies from which outside directors resigned over 10 years ago.

Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Established
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#### Status, Composition and Chairperson of Non-Mandatory Committees

	Committee Corresponding to Nomination Committee	Committee Corresponding to Remuneration Committee
Name of Committee	Nomination & Remuneration Committee	Nomination & Remuneration Committee
Total Number of Members	3	3
Full-time Members	0	0
Full-time Directors	1	1
Outside Directors	2	2
Outside Experts	0	0
Other	0	0
Chairperson	Outside Director	Outside Director

#### Supplementary Explanation:

Six meetings of the Nomination & Remuneration Committee were held in FY2018.

In addition to the Nomination & Remuneration Committee, the Bank has also established the Audit & Compliance Committee.

Please refer to "II.2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration" of this report for details.

### [Audit & Supervisory Board Members]

Establishment of Audit & Supervisory Board	Established
Maximum Number of Audit & Supervisory Board Members Stipulated in Articles of Incorporation	5
Number of Audit & Supervisory Board Members	3

Cooperation between Audit & Supervisory Board Members, Accounting Auditors and Internal Audit Division:

The Audit & Supervisory Board maintains close coordination with accounting auditors through regular meetings (more than four meetings a year; eleven held in FY2018), exchanging ideas and information on internal controls for auditing and financial reporting.

The Audit & Supervisory Board receives regular reports from the Internal Audit Division (more than four reports a year; eight received in FY2018) on internal audit policy and results, aimed at ensuring efficient and effective auditing. The standing Audit & Supervisory Board member meets with the Bank's Internal Audit Division (at least once a month) to receive audit reports and exchange ideas and information as necessary, in addition to weekly meetings with the Head of the Internal Audit Division.

The standing Audit & Supervisory Board Member (Office of Audit & Supervisory Board), Internal Audit Division and Accounting Auditor hold quarterly three-way audit discussions regarding risk awareness, in addition to sharing audit plans and results.

The Bank's Audit & Supervisory Board decides upon the basic policies and evaluation criteria regarding the appointment and dismissal of the Accounting Auditor and makes a comprehensive judgment on the appointment of the Accounting Auditor based on the appropriate evaluation standards.

These evaluation standards are considered based on an overview of the auditing company, audit results, quality control framework, audit implementation framework applied to the Bank, audit fee level, an executive evaluation, whether there are any reasons for disqualification as well as other evaluation criteria deemed important.

The Bank follows a basic policy for making judgements on the appointment (or reappointment) of the Accounting Auditor that, upon completion of the above-mentioned evaluation, focuses on the audit company's particular knowledge of financial institution operations, experience with bank audits, framework for the provision of appropriate audit services to Aozora or the Aozora Group, discussions with the -management/ability to provide executives with information or advice, appropriate collaboration with the Audit & Supervisory Board and Internal Audit Division. It is the Bank's policy to dismiss or decline reappointment in the event of the occurrence of statutory reasons for dismissal or the Bank's decision that it would be difficult for the Accounting Auditor to adequately perform other duties.

Appointment of Outside Audit & Supervisory Board Members	Appointed
Number of Outside Audit & Supervisory Board Members	2
Number of Independent Audit & Supervisory Board Members	2

Outside Audit & Supervisory Board Members' Relationship with the Bank (1)

Name	Attribute	Relationship with the Bank*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Kiyoto Hagiwara	From another company													
Toraki Inoue	Certified Public Accountant													

\*Categories for "Relationship with the Bank"

- "○" Presently falls or has recently fallen under the category
- "△" Fell under the category in the past
- A close relative presently falls or has recently fallen under the category
- ▲ A close relative fell under the category in the past

- a. Executive of the Bank or its subsidiary
- b. Non-executive director or accounting advisor of the Bank or its subsidiaries
- c. Non-executive director or executive of a parent company of the Bank
- d. Audit & Supervisory Board member of a parent company of the Bank
- e. Executive of a fellow subsidiary company of the Bank
- f. Party whose major client is the Bank or an executive thereof
- g. Major client of the Bank or an executive thereof
- h. Consultant, accountant or legal professional who receives a large amount of monetary compensation or other assets from the Bank, in addition to Audit & Supervisory Board member remuneration
- i. Major shareholder of the Bank (or an executive of a major shareholder in the case of a corporate shareholder)
- j. Executive of a client of the Bank (who does not fall under categories f, g, or h) (the Audit & Supervisory Board member himself/herself only)
- k. Executive of a company, with which the Bank has mutually appointed outside directors (the Audit & Supervisory Board member himself/herself only)
- l. Executive of a company or organization that receives donations from the Bank (the Audit & Supervisory Board member himself/herself only)
- m. Others

Outside Audit & Supervisory Board Members' Relationship with the Bank (2)

Name	Independent Audit & Supervisory Board Member	Supplementary Explanation	Reasons for Appointment
Kiyoto Hagiwara	Yes	<b>Main Concurrent Post</b> Senior Advisor, The Securities Analysts Association of Japan (SAAJ)	Mr. Kiyoto Hagiwara's appointment as an external Audit & Supervisory Board member was deemed suitable due to his substantial experience and expertise in the finance and banking business.  He was selected as an independent Audit and Supervisory Board member by a resolution of the Board of Directors as it was determined that there is no risk of a conflict of interest with general shareholders under the Enforcement Rules for Securities Listing Regulations of the Tokyo Stock Exchange.
Toraki Inoue	Yes	<b>Main Concurrent Post</b> General Manager, Toraki Inoue Certified Public Accountant Office  Representative Director and President, Accounting Advisory Co., Ltd  Supervisory Director, GLP J-REIT  Outside Audit & Supervisory Board Member, Kao Corporation  Standing Corporate Auditor, Kyulux Inc.	Mr. Toraki Inoue's appointment as an external Audit & Supervisory Board member was deemed suitable due to his substantial experience and expertise as an auditor.  He was selected as an independent Audit and Supervisory Board member by a resolution of the Board of Directors as it was determined that there is no risk of a conflict of interest with general shareholders under the Enforcement Rules for Securities Listing Regulations of the Tokyo Stock Exchange.

**[Independent Directors/Audit & Supervisory Board Members]**

Number of Independent Directors/ Audit & Supervisory Board Members	6
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Matters relating to Independent Directors/Audit & Supervisory Board Members:

The Bank determines the independence of outside directors and outside Audit & Supervisory Board members in accordance with the standards set forth by the Tokyo Stock Exchange.

All qualified outside directors and outside Audit and Supervisory Board members are designated independent.

Outside Directors: 4

Outside Audit & Supervisory Board Members: 2

## [Incentives]

Incentive for Directors	Stock Options
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### Supplementary Explanation:

The Bank abolished the officer retirement allowance program for full-time directors through a resolution of the Ordinary General Meeting of Shareholders held on June 26, 2014. The Bank also introduced equity compensation type stock options for directors in order for them to share the risks and benefits of stock price fluctuations with shareholders, and to further motivate directors to contribute to the enhancement of Aozora's corporate value and an increase in the share price over the medium to long-term.

Recipients of Stock Options	Full-time Directors, Others
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### Supplementary Explanation:

In addition to annual base remuneration, the Bank grants equity compensation type stock options to full-time directors and executive officers in order for them to share the risks and benefits of stock price fluctuations with shareholders, and to further motivate directors to contribute to the enhancement of Aozora's corporate value and an increase in the share price over the medium to long-term.

## [Director Remuneration]

Disclosure of Individual Directors' Remuneration	Individual disclosure for certain directors
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### Supplementary Explanation:

The amount of remuneration is individually disclosed in the Securities Report in cases where directors received remuneration of 100 million yen or more.

### <Total Remuneration Amounts for Directors/Audit & Supervisory Board Members, and Outside Officers>

The breakdown of total officer remuneration for FY2018 is as follows:

Director remuneration: 356 million yen

Audit & Supervisory Board member remuneration: 53 million yen

Outside director and outside Audit & Supervisory Board member remuneration: 80 million yen

Policy for Determining Remuneration Amounts and Calculation Methods	Established
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### Disclosure of Policy for Determining Remuneration Amounts and Calculation Methods:

#### < Policy and Procedure for Determining Director/Executive Officer Remuneration >

##### • Basic Policy for Determining Director and Executive Officer Remuneration

In order to achieve Aozora's management philosophy of being "firmly established in the Japanese financial system" and "truly committed to contributing to the economic and social growth of Japan", the Bank believes it is necessary to provide a setting which encourages high-potential employees to work consistently with high morale, motivation and pride to make sound business decisions.

To this end, the Bank has designed a remuneration system based on the following basic policy.

##### 1. Remuneration framework in line with the Bank's vision

The Bank aims to build a compensation framework which reflects business performance in line with its objectives and values.



## 2. Remuneration framework appropriately reflecting the Bank's performance

The Bank's remuneration framework is structured on the principle of 'Pay for performance' and reflects the Bank's commitment to sustainable growth, sound risk-taking through appropriate risk management, compliance, and customer protection.

## 3. Remuneration framework serving the interests of stakeholders including shareholders

The Bank will adopt a remuneration framework that is consistent with the values of stakeholders, including shareholders.

## 4. Remuneration methodology guaranteeing effective governance

In determining remuneration, the Bank will strive to ensure transparency and independence from any specific influences.

### • Policy on determination of the amount or calculation method of remuneration for directors

The Nomination & Remuneration Committee, which mainly comprises of outside directors and as delegated by the Board of Directors, decides on both the directors' remuneration policy and amounts payable to each director.

The Bank pays, in principle, fixed base remuneration, performance-based bonus and equity compensation type stock options to directors (other than outside directors), and only fixed base remuneration to outside directors.

It was resolved at the 73rd annual general meeting of shareholders on June 23, 2006 to set the annual base remuneration ceiling for directors at 600 million yen. To enable the Bank to pay bonus based on performance, this remuneration ceiling of 600 million yen for Directors was approved as the ceiling to include bonus as well as for a total of base remuneration at the 82nd annual general meeting of shareholders on June 26, 2015. The Bank had eight directors (including four outside directors) as of the end of 82nd annual general meeting of shareholders.

#### (1) Base remuneration

Base remuneration comprises fixed amount which is fixed, varies with the type of position (full-time or part-time), job title and responsibility. We use data of an outside specialized agency to check and benchmark whether the level of base remuneration amounts is appropriate before determining it.

#### (2) Bonus (Performance-based remuneration)

The bonus amount is initially set at equivalence of 40% of individual basic remuneration amount (the "Base Bonus Amount"). The Nomination & Remuneration Committee then decides individual amount of bonus (performance-based remuneration) by applying a rate within the pre-determined scope ranging from 0% to 250% of the Base Bonus Amount for every full-time director by considering key indicators of a fiscal year as indicated below.

Specifically, the Nomination & Remuneration Committee decides a rate and bonus amount by considering the following indicators and the Bank's performance of a fiscal year.

Until the latest fiscal year, the Nomination & Remuneration Committee decided bonus amounts of internal directors (full-time directors) by applying the uniform rate to every director, which the Committee set based on the following key indicators on business performance of a fiscal year. This was based on the Bank's prior policy that internal directors (full-time directors) are jointly responsible for business management as a unit. In recent fiscal year, however, it is now determined individually by applying a rate specific to each position of director.

- Achievement rates of Business Profit and Net Profit

- Achievement rates of KPI(Key Performance Indicators) such as OHR(Over-head Ratios), ROE(Return on Equity) and ROA(Return on Assets)
- Achievement and maintenance of Capital Adequacy Ratio
- Assessment of undue risk and occurrence of serious compliance incidents
- Implementation/ introduction of measures and strategies, including launch of new businesses, from a mid-/ long-term viewpoints

Among the above key indicators, achievement rates of Business Profit and Net Profit are basic indicators on business results. Achievement rates of OHR, ROE and ROA as KPI and Capital Adequacy Ratio are key indicators for the Bank's Mid-Term Business Plan. These achievement rates, therefore, are taken into account as quantitative evaluation indicators to determine bonus amounts. Indicators, including the assessment of undue risk and occurrence of serious compliance incidents, and implementation/ introduction of measures and strategies, including launch of new businesses, from a mid-/ long-term viewpoint, are also fully considered as qualitative evaluation indicators.

Targets and results of the indicators related to performance-based remuneration in FY2018 are stated below.

	Targets (consolidated)	Results (consolidated)
Business profit	40 billion yen	34.4 billion yen
Net profit	43 billion yen	36.1 billion yen
OHR	About 50%	59%
ROE	About 9%	8.2%
ROA	About 0.8%	0.7%
Capital adequacy ratio	About 10%	10.27%

### (3) Equity compensation type stock options

The Nomination & Remuneration Committee discussed ratios by cash remuneration and equity compensation type stock options in bonus payment so that the stock options can be one of the proper incentive for sustainable growth, and set the ratio at 25% of the amount of the Base Remuneration.

The number of options to be granted is determined based on a resolution of the Board of Directors in accordance with the "Equity Compensation Type Stock Options Manual".

A resolution that share acquisition rights will be allotted in addition to base remuneration to full-time directors within 150 million yen a year was approved at the 81st annual general meeting of shareholders on June 26, 2014.

- Policy on determination of the amount or calculation method of remuneration for executive officers  
The Nomination & Remuneration Committee determines policy regarding the remuneration of individual executive officers including the respective amounts. To ensure that executive officer remuneration functions as a sound incentive for sustainable growth, the Nomination & Remuneration Committee discusses and sets the appropriate proportion of cash remuneration and equity compensation type stock options.

(1) Base Remuneration

Base remuneration is a fixed remuneration in accordance with position and responsibilities. The Nomination & Remuneration Committee determines the appropriate level of base remuneration utilizing research data obtained from an external specialist agency.

(2) Bonus (Performance-based remuneration)

At the end of each relevant period, the Nomination & Remuneration Committee determines final bonus payment amounts taking into consideration factors including performance, the status of internal controls, and the impact of external environmental factors.

(3) Equity compensation type stock options

The Nomination & Remuneration Committee determines equity compensation type stock options in accordance with internal regulations for the handling of stock options, and the amount to be allocated is subsequently determined by a resolution of the Board of Directors.

(4) Executive officer retirement allowance

In accordance with internal regulations, the Nomination & Remuneration Committee calculates executive officer retirement allowance by multiplying total base remuneration (accumulated over the period of service) by a uniform rate.

< Policy on determination of Audit and Supervisory Board Member remuneration and calculation >

Audit and Supervisory Board members discuss and determine individual remuneration amounts by considering discussions and proposals made at the Nomination & Remuneration Committee.

The Bank pays only fixed base remuneration in accordance with the policy below. The upper limit of total Audit and Supervisory Board members' base remuneration is 60 million yen based on the resolution at the 73rd annual general meeting of shareholders on June 23, 2006. The Bank had three Audit and Supervisory Board members as of the end of 73rd annual general meeting of shareholders.

(1) Base remuneration

Base remuneration amount is fixed, varying with work status (full-time or part-time), assigned audit duties, remuneration for directors, etc. We use data of an outside specialized agency to check whether the level of base remuneration amounts is appropriate before determining it.

**[Support Framework for Outside Directors and Outside Audit & Supervisory Board Members]**

<Support Framework for Outside Directors>

1. The Bank's independent outside directors actively contribute to discussions at Board of Directors meetings, as well as meetings convened by the Nomination & Remuneration Committee which comprise mainly outside directors and the Audit & Compliance Committee comprised solely of outside directors, making recommendations as necessary. Outside directors also exchange information with other board and committee members, as well as maintaining contact with senior management and collaborating with the Audit & Supervisory Board and its members. The Bank has established the Corporate Secretary Office to serve as liaison and coordinator between outside directors and senior management.
2. As secretariat for the Board of Directors and Board-level committees, the Corporate Secretary Office collaborates with respective business groups to provide directors with the information needed to execute their duties, supports directors at meetings, and arranges meetings with divisions throughout the Bank as necessary.

3. The Bank provides materials related to agenda items to the Board of Directors and Board-level committees in advance of meetings to allow directors sufficient time to review. In addition, upon preparation by the secretariat, the Bank sends the minutes of meetings to each director and committee member to verify the accuracy of the statements recorded.
4. The Bank sends minutes and other information pertaining to management-level committees (Management Committee, etc.) to outside directors periodically to keep them informed about the progress of business execution, as well as communicate important information regarding the Bank's business, finance, and organization.

<Support Framework for Outside Audit & Supervisory Board Members>

1. The Bank has established the Office of Audit & Supervisory Board to support Audit & Supervisory Board members in the execution of their duties.
2. The Office of Audit & Supervisory Board supports outside Audit & Supervisory Board members by providing them with necessary documents including reports and informing them about meetings and other matters related to the Audit & Supervisory Board and the Board of Directors. In addition, upon preparation by the secretariat, the Bank sends the minutes of meetings to each outside board member to verify the accuracy of the statements recorded and ensure proper information storage.
3. The Bank periodically sends minutes and other information pertaining to management-level committees to outside Audit & Supervisory Board members to keep them informed about the progress of business execution.

<Training for Directors and Audit & Supervisory Board Members>

All directors and Audit & Supervisory Board members receive a directors' handbook outlining the Bank's main internal rules and regulations for executive officers. For newly appointed outside directors and outside Audit & Supervisory Board members, the executive officer in charge of each business group conducts orientations to explain the Bank's business operations. At the Board of Directors level, the Bank also invites lawyers and other independent experts from outside the Bank to conduct training seminars.

[Status of people who resigned as Representative Director and President]

Name and other information of Counselors, Advisors who formerly served as Representative Director and President

Name	Position/Title	Duties	Working form/condition (e.g. full time, part time, receipt of remuneration)	Date of resignation as President, etc.	Tenure
-	-	-	-	-	-

Total number of Counselors, Advisors who formerly served as Representative Director and President:  
None

Remarks:

The Bank has no positions of Counselor, Advisor.

## **2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration (Overview of Current Corporate Governance System)**

The Bank's corporate governance system is organized as follows.

### **<Audit and Management Oversight>**

#### **1. Board of Directors**

The Board of Directors establishes important business policy and oversees the execution of duties by executive officers entrusted with daily business operations. The four outside directors regularly hold exclusive meetings (generally every three months) in order to discuss business issues, the management of Board of Directors' Meetings, the succession of the CEO position and other issues from an outside perspective.

#### **2. Audit & Supervisory Board**

The Audit & Supervisory Board formulates the Bank's audit policy and plan regarding the execution of duties by directors and executive officers, receives reports on important audit matters and discusses or resolves them as needed.

#### **3. Nomination & Remuneration Committee**

Mainly comprised of outside directors, the Nomination & Remuneration Committee recommends candidates to the Board of Directors for Board and Audit & Supervisory Board membership, as well as other important roles. In addition, the Nomination & Remuneration Committee determines the remuneration of directors and executive officers, and makes recommendations to the Audit & Supervisory Board regarding the remuneration of Audit & Supervisory Board members.

#### **4. Audit & Compliance Committee**

The Audit & Compliance Committee comprises outside directors who are responsible for reviewing the adequacy and effectiveness of matters relevant to the establishment of internal control systems including internal and external audits, risk management, compliance, credit audits and the financial reporting process.

### **<Execution of Duties>**

#### **1. Management Committee**

The Management Committee comprises executive officers (including senior management) specially appointed by the Board of Directors. The Management Committee convenes weekly and determines important matters related to the Bank's daily operations, in accordance with the policies set forth by the Board. The Management Committee has the following sub-committees to which it delegates authority: ALM Committee, Integrated Risk Committee, Credit Committee, Investment Committee, CAPEX Committee, and Customer Protection Committee. Sub-committees have substantive knowledge and experience in various aspects of the Bank's business operations, as well as sound decision-making capabilities.

### **<Basic Policy for Nominating Directors and Audit & Supervisory Board Member Candidates, and Appointing and Dismissing Senior Management Including the CEO (Executive Officers at the Managing Executive Officer level or higher)>**

In order to realize Aozora's basic corporate governance policy, the Board of Directors complies with the following basic guidelines for nominating directors and Audit & Supervisory Board members, and appointing and dismissing senior management including the CEO while taking into account the proper scope and diversity of the positions.

- Basic Guidelines for Nominating Director Candidates  
Candidates should:
  1. Possess substantial management knowledge and expertise
  2. Have superior insight, be able to make management decisions and exercise sound judgment
  3. Be committed to the duties of director
  4. Be able to earn the trust of the Bank's stakeholders, including shareholders
  5. In the case of outside directors, be able to conduct management oversight and offer appropriate advice
- Basic Guidelines for Nominating Audit & Supervisory Board Member Candidates  
Candidates should:
  1. Possess substantial management knowledge and expertise
  2. Have knowledge of core financial rules and regulations, finance and accounting
  3. Be fair, impartial, and able to perform duties from an independent standpoint
  4. Be able to earn the trust of the Bank's stakeholders
  5. Have the ability to communicate effectively with shareholders, the Board of Directors, and senior management to ensure management soundness and transparency
- Basic Guidelines for Appointing and Dismissing Senior Management
  - (1) Basic Guidelines for Appointing Senior Management
    1. Possesses substantial knowledge and expertise required for proper business operations
    2. Has superior insight, ability to make decisions on business operations and exercise sound judgment
    3. Demonstrates leadership skills and ability to assume responsibility for important management functions related to the Bank's business strategy
  - (2) Basic Guidelines for Dismissing Senior Management
    1. Acts against the public interest
    2. Becomes unable to perform duties due to health problems
    3. Causes serious damage to the Bank's corporate value due to negligence
- Basic Guidelines for Appointing and Dismissing the CEO
  - (1) Basic Guidelines for Appointing the CEO  
In addition to the Basic Guidelines for Appointing Senior Management:
    1. Has superior top management leadership skills
    2. Has substantial management experience and achievements
    3. Optimal candidate for the continued improvement of the Bank's corporate value
  - (2) Basic Guidelines for Dismissing the CEO  
In addition to the Basic Guidelines for Dismissing Senior Management:
    1. Fails to exercise top management leadership
    2. Determined to be unqualified as CEO due to failure in fulfilling shareholders' mandate

#### <Procedure for Nominating Directors, and Appointing and Dismissing Senior Management Including the CEO>

The Nomination & Remuneration Committee, of which the majority comprises outside directors, deliberates on the nomination of director candidates as well as the appointment and dismissal of the CEO and other senior management, and makes recommendations to the Board of Directors.

The Board of Directors determines whether or not to accept the recommendations of the Nomination & Remuneration Committee for nominating Directors as well as appointing the CEO and other senior management in accordance with the basic guidelines for such nomination or appointment.

In cases where the CEO or other senior management falls under any of the above basic guidelines for dismissal, in principle, the Board of Directors will determine whether or not to dismiss them in accordance with the recommendations of the Nomination & Remuneration Committee.

#### <Procedure for Nominating Audit & Supervisory Board Members>

The Nomination & Remuneration Committee, of which the majority comprises outside directors, deliberates on the nomination of the Audit & Supervisory Board candidates and makes recommendations to the Board of Directors, taking into consideration the views of Audit & Supervisory Board members.

The Board of Directors determines whether or not to accept the recommendations of the Nomination & Remuneration Committee with the consent of the Audit & Supervisory Board in accordance with the relevant basic guidelines.

#### <Limitation of Liability Agreement>

As stated in Part 1.IV.6 “State of Corporate Governance” (1)-1-(4) of the 86rd FY Securities Report, the Bank has agreed with directors (excluding executive officers) and Audit & Supervisory Board members to a “Minimum Liability Amount” pursuant to Article 425 (1) of the Companies Act for liabilities under Article 423 (1) of said Act.

### **3. Reasons for Adoption of Current Corporate Governance System**

The Bank maintains a company with Audit & Supervisory Board structure and has established the Nomination & Remuneration Committee, of which the majority comprises outside directors, and the Audit & Compliance Committee, which comprises outside directors, to provide supplementary supervision and enhanced management oversight. The Bank believes that this corporate governance structure is most effective in realizing the management philosophy and policy of the Bank. Going forward, the Bank intends to conduct regular reviews of its governance framework and functions, making revisions as necessary to ensure compatibility with its management policy.

### III. Implementation of Measures for Shareholders and Other Stakeholders

#### 1. Measures to Revitalize the General Shareholders' Meetings and Ensure Smooth Exercise of Voting Rights

	Supplementary Explanation
Early Notification of General Shareholders' Meeting	In FY2019, convocation notices were mailed three business days before the date required by law. Since FY2015, the Bank has posted the convocation notice on the Tokyo Stock Exchange and Aozora websites prior to mailing.
Scheduling Shareholders' Meetings Avoiding Peak Days	In principle, the Bank avoids peak days when scheduling shareholders' meetings.
Electronic Exercise of Voting Rights	1. Exercise of voting rights via the Internet The Bank launched the Smart Voting method in FY2018 for the convenience of smartphone users. 2. Exercise of voting rights via mobile phone
Participation in Electronic Voting Platform	The Bank has utilized the ICJ voting platform since the 75th FY Ordinary General Meeting of Shareholders held in June 2008.
Providing Convocation Notice in English	The Bank prepares a full English translation of the convocation notice which is submitted to the Tokyo Stock Exchange, posted on the Aozora website, and registered on the ICJ voting platform.
Other	During the shareholders' meeting, business reports and other agenda matters are projected on to a large screen for ease of understanding.

#### 2. IR Activities

	Supplementary Explanation	Briefings by CEO
Establishment/Announcement of Disclosure Policy	The Bank's disclosure policy outlining its basic policy, procedure and framework for information disclosure is provided on the Aozora website.	
Regular Investor Briefings for Individual Investors	The Bank explains its business and earnings results at regular presentation meetings held for individual investors.	Yes
Regular Investor Briefings for Analysts and Institutional Investors	The Bank holds quarterly net conferences for domestic analysts and institutional investors, in addition to analyst meetings on a half-yearly basis. The Bank also strives to enhance communication with domestic analysts and institutional investors through individual meetings.	Yes
Regular Investor Briefings for Overseas Investors	The Bank uploads English audio presentations to its website twice a year for overseas analysts and investors in addition to meeting with overseas investors at domestic conferences organized by securities companies. The Bank also visits overseas investors for one-on-one meetings as part of ongoing efforts to further enhance communication with investors abroad outside of conference participation.	Yes
Posting of IR Materials on Website	Materials such as earnings reports, securities reports, and annual reports are made available on the Bank's website upon disclosure.	



Establishment of Division in Charge of IR	The Bank's Corporate Communication Division includes IR Group 1, responsible for domestic and overseas investor relations, and IR Group 2, responsible for retail investor-related matters.	
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### 3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanation
Stipulation of Internal Rules for Respecting the Position of Stakeholders	In the Mid-term Plan (FY2018-20), the Bank will strive to achieve sustainable growth as the "Primary Secondary Bank: the partner of choice" by further leveraging its core competencies and unique market position relative to that of megabanks and regional financial institutions in order to contribute to the development of Japan's economy and society.
Implementation of Environmental Activities, CSR Activities etc.	<p>Aozora strives to enhance our corporate value as the "Primary Secondary Bank: the partner of choice" by further leveraging our core competencies and unique market position relative to that of megabanks and regional financial institutions in pursuit of gaining the confidence and support of all our stakeholders. We will also strive to help realize a more sustainable society.</p> <p>Aozora is focused on contributing to the solution of social issues, such as sustainable development goals (SDGs), by incorporating CSR as an integrated element of our management strategy, promoting initiatives on the creation of social value through our financial services across our lines of business, as well as focusing CSR activities to meet the needs of our community and broader society.</p> <p>[Aozora Group's mid- to long-term CSR Initiatives]</p> <p>Business: Promote Businesses which support the sustainable growth of society.</p> <p>Social contributions: Promote CSR activities designed to meet the needs of our community and society.</p> <p>[Major Issues and Key SDGs]</p> <ul style="list-style-type: none"> <li>- Development of a healthy economy and society</li> <li>- Response to changing age demographics</li> <li>- Job satisfaction and comfortable working environment</li> <li>- Response to environmental and energy issues</li> <li>- Partnerships with various stakeholders</li> </ul>
Development of Policies on Information Provision to Stakeholders	Besides as is required by law, the Bank intends to disclose useful corporate information in a fair, voluntary and proactive manner to ensure that its customers and stakeholders including shareholders and investors can better understand the Bank.
Other	<p>Female employees' length of service currently exceeds that of male employees at the Bank, which is not common at other companies. We provide a working environment that supports employees in pursuing long careers at the Bank, regardless of gender. We will work to further improve the working environment while keeping the difference in length of service between men and women at on year or less.</p> <p>The Bank promotes talented employees into managerial positions irrespective of gender. The percentage of female managers has steadily increased and was over 11.2% as of April 2019. The ratio is equivalent to the average rate of 11.5% in the financial and insurance industries. The Bank also has a female Director and female executive officers. The Bank will continue to appoint capable individuals going forward.</p>

## **IV. Matters Related to the Internal Control System**

### **1. Basic Policy on Internal Control System and Progress of System Development**

Aozora Bank determines the following basic policies concerning development of a system for appropriate business (internal control programs) of the Bank and the Bank's subsidiaries based on the Companies Act and the Ordinance for Enforcement of the Companies Act.

#### **1. Ensure Execution of Fiduciary Responsibilities by Directors and Employees in compliance with Laws, Regulations and the Articles of Incorporation**

- (1) The Bank develops Internal Rules concerning a compliance system including Master Policy "Code of Conduct and Ethics" as a code of conduct for officers and employees of the Bank to fulfill their duties while complying with laws and regulations.
- (2) The Bank appoints two or more Outside Directors who have knowledge and experience in the management and supervise the execution of operations by the Bank from an independent perspective for the purpose of ensuring management disciplines and improving a supervisory function of the Board of Directors.
- (3) The Bank establishes Nomination & Remuneration Committee to deliberate appointment and remuneration of Directors and Executive Officers as well as Audit & Compliance Committee to assess matters concerning internal control. Both of the committees consists of mainly Outside Directors and deliberate such matters thoroughly and professionally as entrusted by the Board of Directors, and report the results of the deliberations to the Board of Directors.
- (4) The Bank establishes a division controlling compliance matters and puts in place a compliance system through developing Internal Rules concerning compliance matters, providing compliance training programs, checking the compliance status as well as developing and implementing remedial actions. The division controlling compliance matters annually develops, as "Compliance Program", a specific action plan to put in place a compliance system including responses to newly established and revised laws and regulations, development of Internal Rules and training programs and obtains approval by the Board of Directors. In addition, the division reports its progress to Audit & Compliance Committee and the Board of Directors on a regular basis.
- (5) The Bank establishes an Internal Audit Group which functions independently from all business groups. The Internal Audit Group audits the development and operation of the internal control system from an independent perspective based on the annual audit plan approved by the Board of Directors and periodically reports the status of internal audits to the Chief Executive Officer (CEO), Audit & Compliance Committee and the Board of Directors.
- (6) In order to prevent, discover early and remedy scandals caused by violations of laws or illicit behaviors, the Bank maintains "Aozora Hotline Program", a whistle-blower system which enables officers and employees of the Bank to directly report to in-house and outside special contacts when they learn any cases which violate or may violate laws and regulations or Internal Rules.
- (7) The Bank develops a system necessary to remove any unjustified involvement by Anti-Social

Elements and to eliminate or avoid all transactions with them including provision of funds. In addition, the Bank develops a control structure to prevent the Bank from being used, directly or indirectly, by money laundering or terrorist financing.

- (8) The Bank establishes a customer protection system (management of customer explanation, customer support, customer information, outsourcing and prevention of conflict of interests) to protect customers and to improve customers' conveniences.
- (9) The Bank establishes a system necessary to prevent insider trading and unfair transactions by individual officers and employees where customer information is used by such officers and employees.

## **2. Ensure Efficient Execution of Duties & Responsibilities by Directors**

To ensure prompt decision-making on business execution, the Bank establishes Management Committee consisting of members appointed by the Board of Directors from among Directors and Executive Officers and delegates the business execution-related authorities to such Committee. In addition, Management Committee establishes various committees consisting of committee members having professional expertise, experiences and judgment as its lower organizations and delegates its authorities to them.

## **3. Safekeeping and Management of Information regarding Execution of Fiduciary Responsibilities of Directors**

Based on laws, regulations and various Internal Rules for document management, the Bank appropriately manages and keeps the information on execution of Directors' responsibilities including the minutes of the Board Meeting and other various important committees.

## **4. Internal Rules and Structure to Manage Risk of Loss**

- (1) The Bank defines a basic policy and a management procedure for risks recognized by the Bank and the Bank's Subsidiaries in Master Policy "Comprehensive Risk Management". Further, the Bank classifies risks arising from operations into a market risk, a credit risk, a liquidity risk and an operational risk and develops Internal Rules defining basic policies by risk category.
- (2) Each division in charge by risk category periodically reports the risk management status to Management Committee, Audit & Compliance Committee and the Board of Directors.
- (3) Internal Audit Group audits effectiveness and appropriateness of the risk management system and reports the results to Chief Executive Officer (CEO), Audit & Compliance Committee and the Board of Directors. In addition, such Group shares information as necessary with ASB Members, Audit & Supervisory Board and Accounting Auditors for cooperative purposes.
- (4) The Bank establishes "Business Continuity Plan (BCP)" to respond to risks having a material impact on the business continuity including natural disasters and system failures. Chief Executive Officer (CEO) is responsible for all business responses in an emergency situation.

## **5. Ensure Appropriate Operations of the Bank and the Bank's Subsidiaries**

- (1) The Bank defines the basic policies for management/control, compliance, and risk management systems of the Bank's subsidiaries in Master Policy "Management of Group Companies" to ensure appropriate and effective operation of the business in the Bank and the Bank's Subsidiaries.
- (2) The Bank and the Bank's Subsidiaries establishes an integrated internal control system for the Bank and the Bank's subsidiaries while respecting their independency and individuality. Meanwhile, to the extent of not violating any laws, the Bank ensures that the Bank's policies and procedures including the "Code of Conduct and Ethics" are fully understood by the Bank's subsidiaries.
- (3) The Bank and the Bank's Subsidiaries establishes a system to control a conflict of interest to prevent unreasonable damages to customers' interest as well as a system to cause the terms of transactions between the Bank and the Bank's Subsidiaries and between the Bank's Subsidiaries to comply with the Arm's Length Rule.
- (4) To ensure credibility and appropriateness of the financial reporting of the Bank and the Bank's subsidiaries on a consolidated basis, the Bank develops a system for proper internal control over financial reporting by establishing Procedure "Internal Control over Financial Reporting".
- (5) To the extent of not violating laws and regulations, Internal Audit Group audits business activities of each of the Bank's subsidiaries.

## **6. Ensure Effective Auditing by ASB Members**

- (1) The Bank establishes Office of Audit & Supervisory Board ("ASB") to support its members' duties and appropriately allocates employees to support such activities. The authority to give instructions to such employees belongs to ASB Members and such employees are interviewed and evaluated by Standing ASB Member. In addition, decisions on transfer, promotion, compensation and punishment of such employees require the consent by Standing ASB Member.
- (2) ASB Members may directly require the officers and employees of the Bank and the Bank's subsidiaries to make a report as necessary (including implementation status of the Hot Line program and details of whistle blowers' reports).
- (3) Officers and employees of the Bank and the Bank's subsidiaries immediately make a report to ASB Members whenever they find violations against laws and regulations at the Bank or the Bank's subsidiaries or any event which may cause a serious damage to the Bank or the Bank's subsidiaries. The officers and employees who report to ASB Members will not be unfairly treated due to any such reporting, which is clearly stated in HR Rules and other Internal Rules.
- (4) Officers and employees cooperate with ASB Members when auditing based on an audit plan annually developed by Audit & Supervisory Board (including a budget).
- (5) ASB Members may get advice as needed from external professionals including attorneys and certified accountants about auditing for effective audits.
- (6) The Bank incurs the various costs for execution of the ASB Members' responsibilities (including the

expense related to Paragraph (5) above).

## **2. Basic Policy on Elimination of Anti-Social Forces**

### **1. Basic Policy**

- Aozora Bank and its subsidiaries are committed to preventing transactions of any kind with so-called anti-social elements.
- Prior to entering into any transaction, the Bank conducts extensive checks of all potential customers using its comprehensive database in order to eliminate possible transactions with anti-social elements. The Bank also conducts regular checks of existing customers and, in the event an inappropriate transaction is detected, the Bank takes necessary steps to immediately cancel the transaction with the cooperation of the relevant external institutions.
- The Bank exercises the utmost caution and prudence when interacting with suspected anti-social elements and remains resolute in its efforts to reject all violent and unjustified demands that may result in unwarranted payouts or the provision of funding to such elements.

### **2. Status of Framework Development**

- The Bank's Code of Conduct and Ethics, with which officers and employees of the Bank and its subsidiaries are expected to comply, includes a clause on the elimination of anti-social elements. The Code clearly delineates the Bank's policy regarding the prevention of any involvement by anti-social elements in the Bank's management, as well as losses or damages that may be incurred as a result of such involvement. The Bank has also established various manuals which include the Procedure for Elimination of Anti-Social Elements and the Manual for Prevention of Unjustified Demands.
- The Compliance & Operations Management Division, which supervises the Bank's measures against anti-social elements, has established the Financial Crime Management Office which formulates policy regarding anti-social elements and manages relevant Bank and subsidiary information.
- The Bank assigns a supervisor in charge of anti-social element policy to the Compliance Operations & Management Division and each retail branch. The supervisor is also responsible for the prevention of unjust demands, as stipulated under the Act on Prevention of Unjust Acts by Organized Crime Group Members. The Bank also assigns to each subsidiary a supervisor in charge of preventing unjust demands.
- As part of the Bank's framework for preventing transactions with anti-social elements, the Bank has newly introduced an anti-social element elimination clause in banking transaction contracts (basic agreements for lending transactions), deposit agreements, and business consignment contracts.
- The Bank is committed to eliminating all transactions with potentially high-risk customers including anti-social elements. Prior to entering into any transaction, the Bank vets potential customers for any possible connection to anti-social elements using the Bank's shared database with its subsidiaries, and performs regular checks on transactions already in progress. Any information pointing to a connection with anti-social elements is promptly reported to the Compliance & Operations Management Division and the Internal Audit Division. The Compliance & Operations Management Division manages all Bank and subsidiary information related to anti-social elements.
- The Bank keeps senior management and the Board of Directors informed about the framework for eliminating anti-social elements through regular reporting, and senior management is immediately informed of any inappropriate transaction that may be discovered. A cancellation policy is formulated with timely and appropriate reports to management, and the relevant transaction is cancelled under the full participation and direction of senior management.

- The Bank maintains close contact with government offices in charge of police matters and takes part in training activities and meetings held by such organizations as the Tokyo Metropolitan Center for the Elimination of Organized Crime Syndicates, the Tokubouren (a public interest incorporated association within the Tokyo Metropolitan Police Department for preventing violent crime), and the Association for the Prevention of Violent Crime. The Bank also continues to strengthen collaborations with external third parties, such as lawyers who specialize in anti-racketeering measures.

## V. Other

### 1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted
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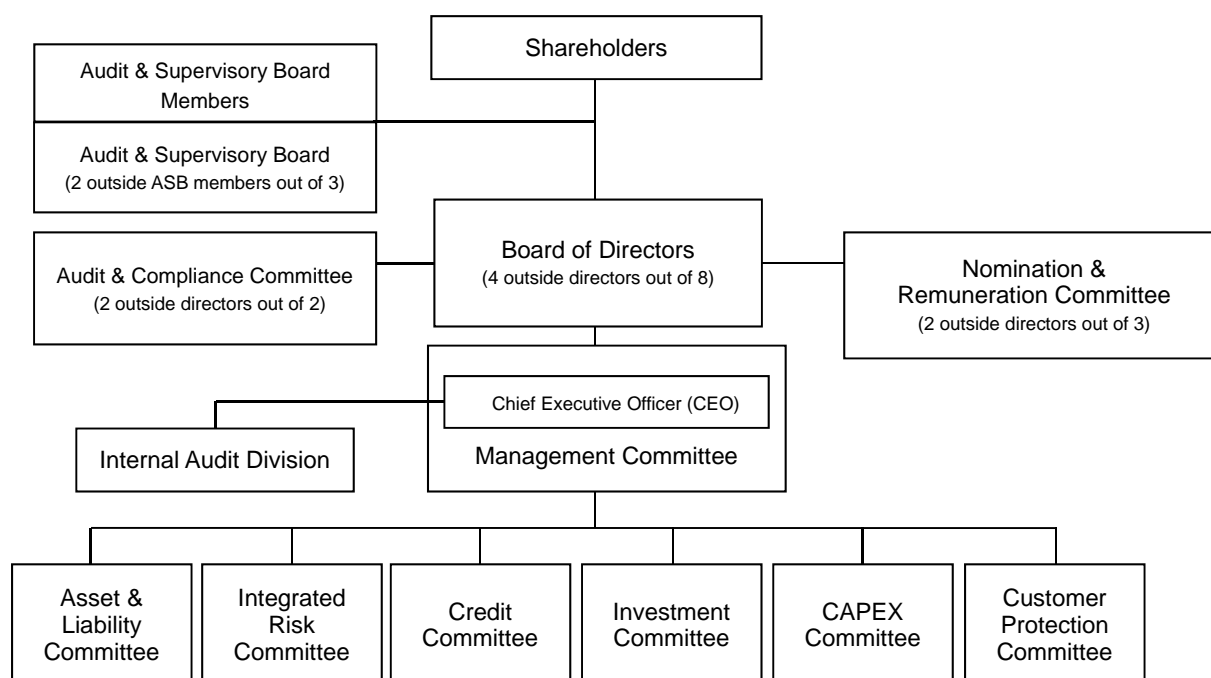
Supplementary Explanation:

The Bank will take into consideration the necessity and value of anti-takeover measures, takeover bids related to treasury shares, capital policy resulting in transfer of corporate control or significant dilution, and adopt appropriate procedures while providing sufficient explanation to its shareholders.

### 2. Other Matters Concerning Corporate Governance System

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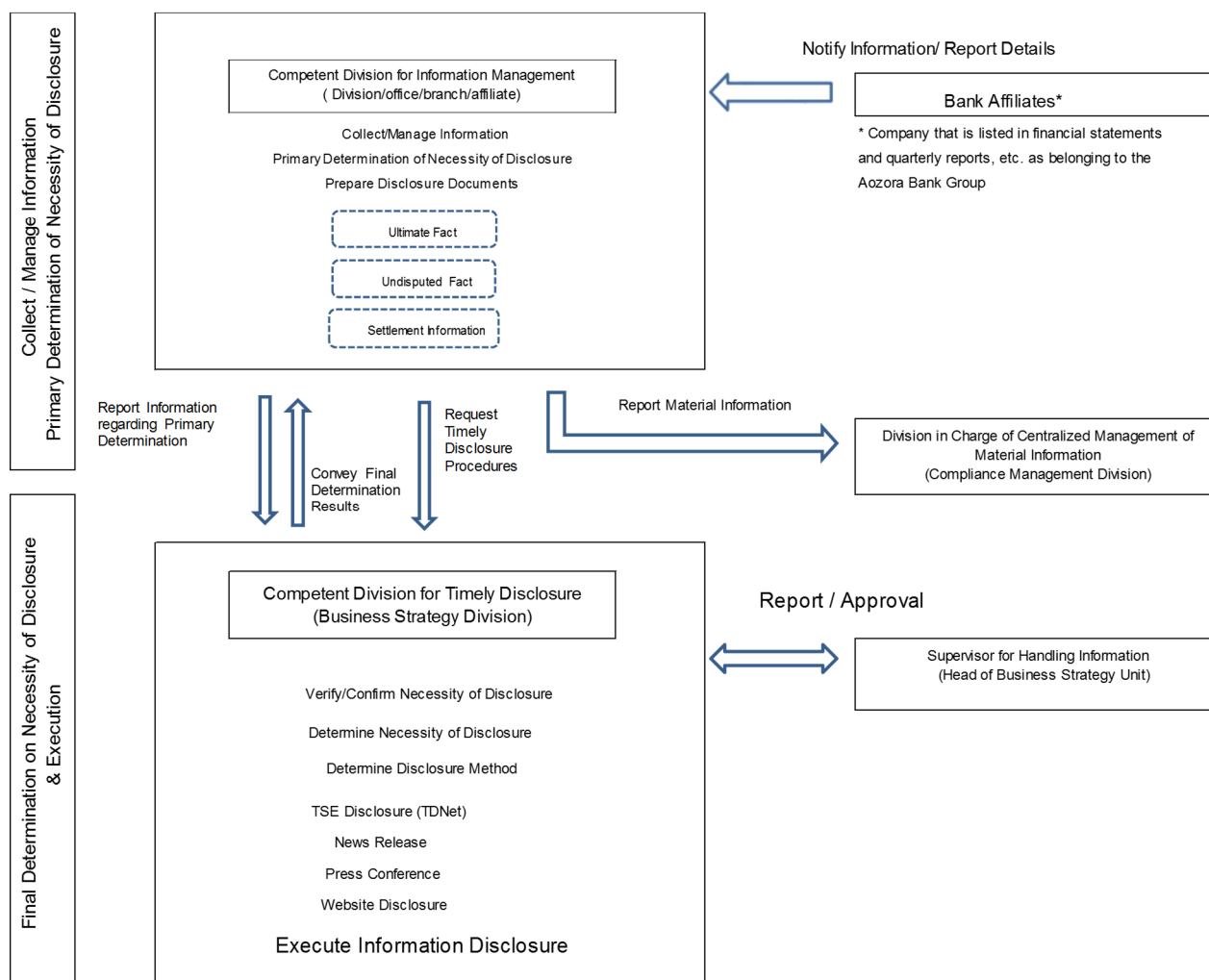
## Aozora's Corporate Governance Framework



Name of committee	Chaired by	Members	Frequency	Purpose
Board of Directors	Chairman or President	Directors, Audit & Supervisory Board Members	Quarterly, as necessary	Determine management policy, supervise duties of directors and executive officers
Audit & Supervisory Board	Standing Audit & Supervisory Board Member	Audit & Supervisory Board Members	Monthly	Report, discuss and approve important audit matters
Nomination & Remuneration Committee	Outside Director	Directors (outside directors comprise majority)	As necessary	Recommend candidates for director, Audit & Supervisory Board member, and other important roles to the Board of Directors Determine remuneration for directors and important officers, and make recommendations regarding remuneration for Audit & Supervisory Board members
Audit & Compliance Committee	Outside Director	Outside Directors	As necessary	Supervise and review the effectiveness and suitability of internal control system construction including internal and external audits, risk management, compliance, and credit audits.
Management Committee	President or Deputy President	Executive Officers appointed by the Board of Directors	Weekly	Determine important matters related to daily business operations

(As of July 1, 2019)

## Outline of Aozora Bank's Timely Disclosure Framework



(As of July 1, 2019)