Toward a Firmer Business Position

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Some of the key indicators of sound financial management are “capital adequacy ratio” and “ratings.” The Bank has always concentrated on the improvement of financial soundness and kept these indicators at favorable levels.

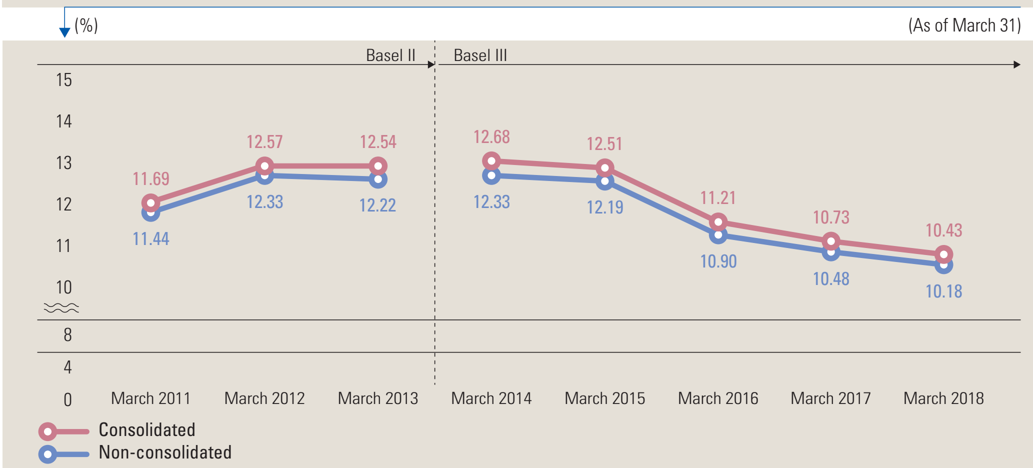
Capital Adequacy Ratio

Capital adequacy ratio refers to the ratio of capital relative to assets calculated according to risks (risk assets). It is one of the major barometers of a bank’s financial soundness. Banks that have no overseas bases are required to maintain a capital adequacy ratio of at least 4% under domestic standards.

The 77 Bank applies domestic standards for calculation of the capital adequacy ratio. The Bank’s capital adequacy ratio was 10.18% at March 31, 2018, which is well above the required level (4%).

*The Bank has applied Basel III for calculation of the capital adequacy ratio since the end of March 2014.

Trends in Capital Adequacy Ratio *(domestic standard)*



Ratings

“Rating” is an indicator of the certainty of the principal, interest, etc. of bonds issued by companies and other entities and those of bank deposits being paid in accordance with predetermined terms and conditions, and is denoted by such symbols as alphabets. As a third-party rating agency assesses the financial position, etc. and discloses the results to the market, ratings are used as an indicator of a bank’s credit worthiness and security.

The 77 Bank has acquired ratings from two rating agencies that are among the highest of any Japanese financial institution.

The 77 Bank’s Ratings

(As of July 31, 2018)

Solid debt-repayment capabilities

AAA
AA
A
BBB
BB
B
CCC
CC
C
D

Rating Agency	Category	Rating	Definition
Japan Credit Rating Agency, Ltd. (JCR)	Long-term issuer rating	AA	Highest certainty of fulfillment of obligations
Rating and Investment Information, Inc. (R&I)	Issuer credit rating	A	Higher credibility and partially superior performance

Notes:
1. Some rating agencies do not use D.
2. Ratings from level AA to level CCC (including level B by some agencies) are further qualified with the use of a + or – sign.

Risk-Management Structure

Sophisticated Techniques Based on Sound Principles

Rapidly changing conditions in the financial sector have significantly transformed the operating environment for financial institutions and caused the risk that surrounds financial institutions to become comparatively more complex than in the past. These conditions demand that financial institutions execute even more accurate identification and analysis of risks, and take appropriate control of such risks.

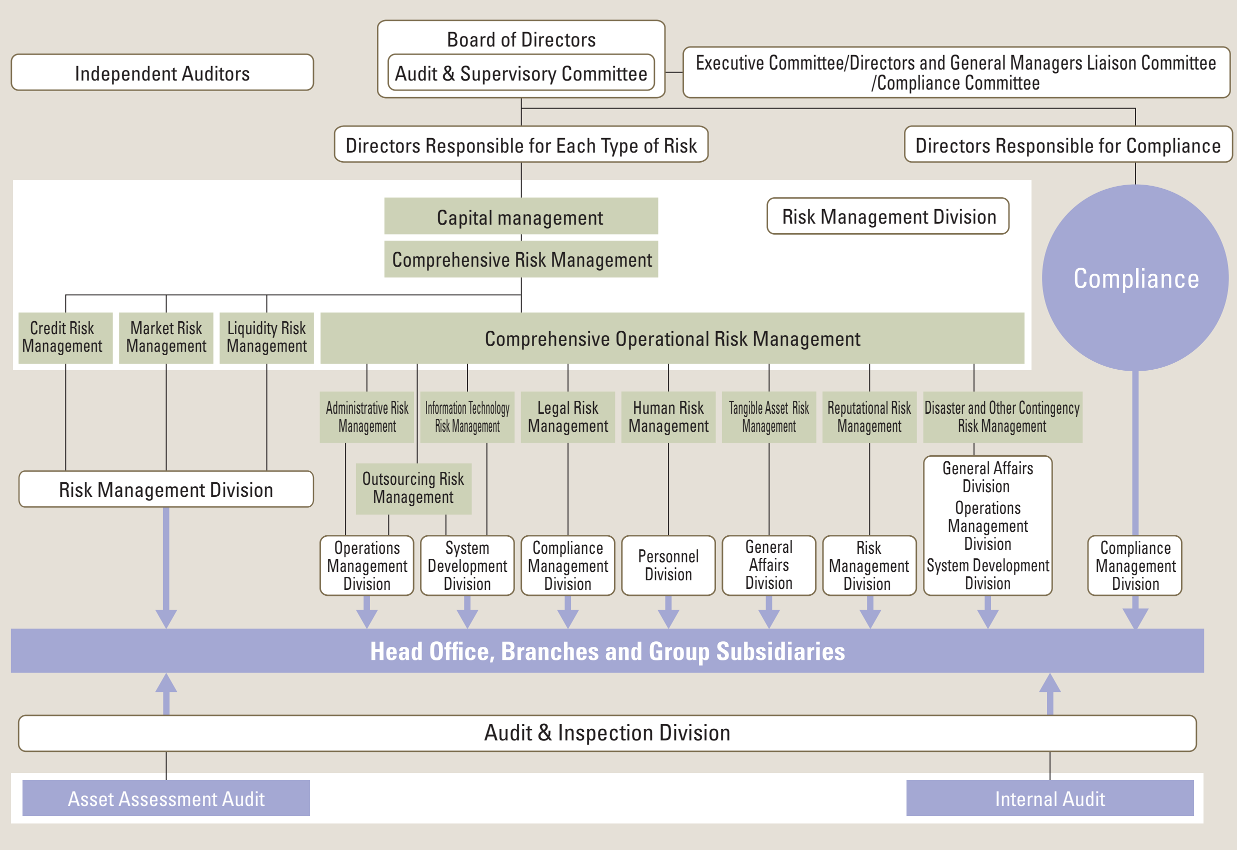
The 77 Bank works to reinforce comprehensive risk management with the improved soundness of business in mind. The risks the Bank faces are assessed by category and comprehensive risk management systems are established for self-control type risk management by taking an overall look at them, and comparing and contrasting with the Bank's capital. At the same time, efforts are being made to improve risk management methods by such means as the enhancement of risk measurement techniques.

We have implemented risk capital management as a specific framework for comprehensive risk management. Risk capital management is a management method where a risk capital budget, which is the risk tolerance, is allocated by risk category to each unit (domestic business units, funds and securities units, and another unit), and the measured risks of each unit are monitored to ensure that they do not exceed the respective budget. Risk capital management is also utilized to monitor whether expected profits suitable for the risks taken are being secured.

Roles of the Bank's Risk-Management Units

Various risks have been classified into four categories—credit risks, market risks, liquidity risks, and operational risks—and each risk category is overseen by dedicated divisions, in addition to comprehensive risk management by the Risk Management Division. Credit risks, market risks and liquidity

Flow of Risk Management and Compliance Responsibilities



risks are managed by the Risk Management Division and the Risk Management Division supervises the comprehensive operational risk management. Of the operational risks, administrative risks are managed by the Operations Management Division, information technology risks by the System Development Division, legal risks by the Compliance Management Division, human risks by Personnel Division, tangible assets risks by the General Affairs Division, reputational risks by the Risk Management Division, and outsourcing risks by the Operations Management Division and System Development Division, and disaster and other contingency risks by the General Affairs Division, Operations Management Division, and System Development Division.

The Audit & Inspection Division is independent of all business units, as it is the evaluating unit for internal processes and asset status. The Audit & Inspection Division assesses the risk-management positions of each division and branch, as well as those of group companies. The Bank conducts two types of audit: a comprehensive audit for internal management systems, including financial facilitation, compliance, customer protection, governance and management, and risk control; and physical inspection of cash and cash equivalents for the prevention of illegality. In addition, the Bank undergoes external audits, performed by outside audit & Supervisory Committee members, in order to further consolidate the internal management structure.

Compliance

The Bank formulated the Compliance Policies in order to clarify its stance on compliance and to ensure the effectiveness thereof. Further, the Bank established the Compliance Guidelines (Compliance Standards) to articulate specific guidelines and a code of conduct so that the executives and employees place importance on compliance, thereby ensuring the lawful conduct of business.

Compliance Guidelines

Basic Direction

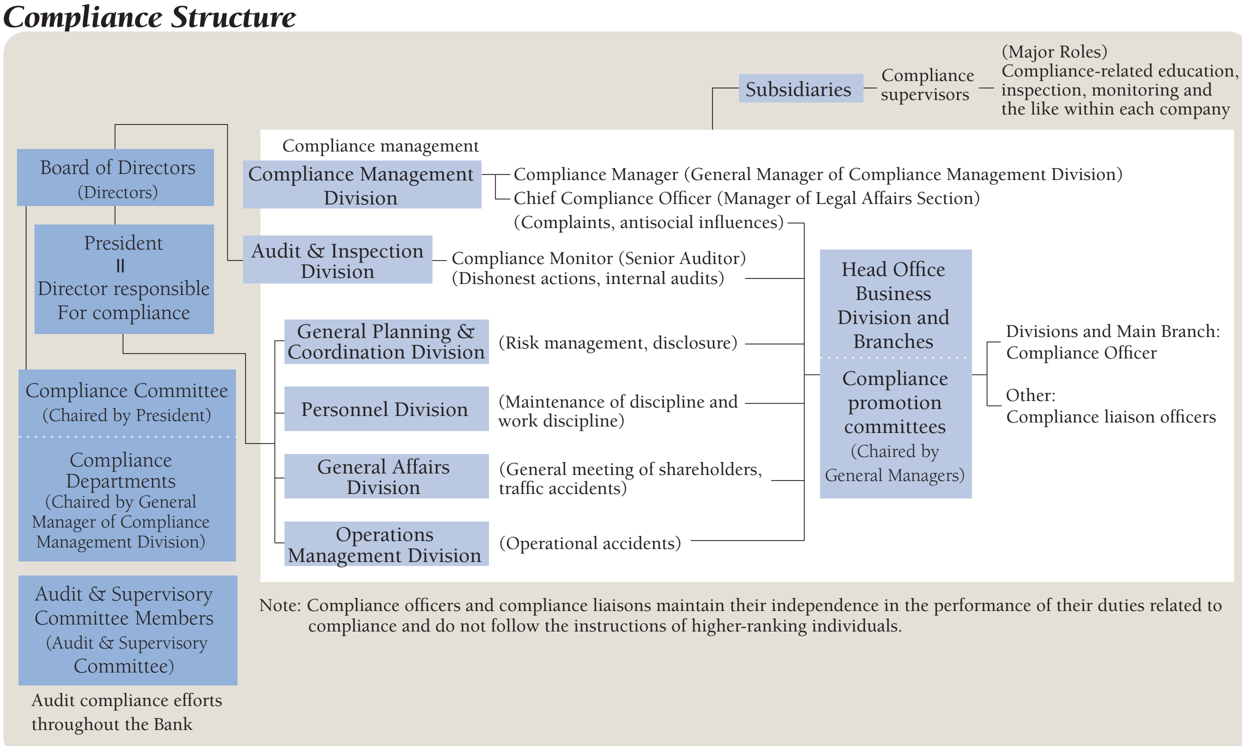
1. Ensure sound management and pay the utmost attention to sustaining the Bank's credibility and its ability to maintain smooth financing.
2. Comply with laws and the code of corporate ethics and maintain fair and honest practices.
3. Take a principled stand with regard to issues that threaten social order or public peace.
4. Provide financial services that the region, customers, and society broadly trust and endeavor to achieve sustainable development together with them as a good corporate citizen.
5. Foster a flexible and constructive working environment conducive to the well-being of all employees.

Code of Conduct

1. We will comply with laws, ordinances, the Articles of Incorporation, the Rules of Employment, and internal rules of the Bank.
2. We will not force unfair transaction on our customers.
3. We will not divulge confidential information of our customers or the Bank, or material information that has not been made public.
4. We will not neglect to provide reports required by laws, ordinances, and internal rules of the Bank, or provide false reports.
5. We recognize the public nature and the large social responsibility of the Bank and will devote ourselves to our duties.

6. We will not follow instructions or orders given by an individual that go beyond or deviate from the authorities given to said individual.
7. We will not engage in such conduct as will undermine the credibility or honor of the Bank.
8. We will not do favors for our customers in violation of law, ordinances, or internal rules of the Bank.
9. We will not seek to make unfair profits by taking advantage of our duties or position.
10. We will not borrow from or mediate for someone to borrow from our customers, other executives, or other employees without legitimate reason.
11. We will not engage in socially unacceptable entertaining or gift giving.
12. We will make efforts to maintain order in the workplace.

Compliance Structure



Thorough compliance with laws and the code of corporate ethics is essential for a financial institution if it is to uphold its social responsibility and public duty and thus maintain the trust of the region in which it operates, customers and society at large. From this perspective, The 77 Bank established the Legal Affairs Office in 1998 to monitor legal compliance. Following subsequent organizational reforms, the authority of the Legal Affairs Office was superseded by the Compliance Management Division, which now tracks the situation with respect to legal compliance.

The President is the director ultimately responsible for legal compliance. He is supported by the general manager of the Compliance Management Division, who supervises inspections, and the head of the Legal Affairs Section, who acts as a compliance officer. Each division and branch is assigned a compliance officer and other oversight personnel who undertake regular inspections to ascertain the situation with respect to compliance. The 77 Bank also advocates measures to preclude inappropriate behavior or legal errors. The Bank encourages greater awareness of laws and other compliance issues among executives and employees, and strives to foster a deeper understanding of pertinent laws.

To further strengthen the compliance structure, the Bank established the Compliance Committee chaired by the President and compliance departments as subcommittees of the Compliance Committee. Also, divisions and branches have compliance promotion committees.