

Tokyo Kiraboshi Financial Group, Inc.

2019 | Annual Report



Safeguarding your aspirations;
connecting them with reality

Tokyo Kiraboshi Financial Group, Inc.

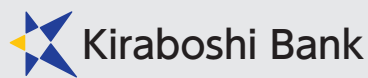
Tokyo Kiraboshi Financial Group



Business name : Tokyo Kiraboshi Financial Group, Inc.

Head office	5-9-2 Shinjuku, Shinjuku-ku, Tokyo
Established	October 1, 2014
Capital	¥27.5 billion
Exchange listing	Tokyo Stock Exchange, First Section (Securities Code: 7173)
Website	https://www.tokyo-kiraboshifg.co.jp

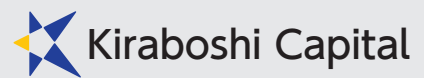
(As of March 31, 2019)



Business name : Kiraboshi Bank, Ltd.



Business name : Kiraboshi Consulting Co., Ltd.



Business name : Kiraboshi Capital Co., Ltd.

The origin of the bank's name

Constellation. Twinkling stars.
We want to make the dreams of our customers glitter even brighter in the Tokyo area. Into this name we put our desire for something clean-cut that also feels easy to get to know, that takes the customers' ideas into safekeeping and uses them to bridge the way to the next generation.

The ideas we wanted to put into the logo and its color

"Kiraboshi" is a design representing somebody facing forward and beginning to walk with head held high, and represents our feeling of wanting to move forward with and contribute to the local community, as a bank that rises to the challenge. Expressing our desire to become a bank that places great value on the "ideas" of customers and employees, and to become a gleaming presence in local communities, we used dark blue to symbolize "trustworthiness" and "sincerity," while yellow represents "future promise" and "independence."

Management philosophy

To be a financial group for small and medium-sized enterprise customers and individual customers in the Tokyo metropolitan area that will contribute to the development of local communities through comprehensive financial services

Management policy

- Achieve enduring existence as a local regional bank through the provision of unique financial services **A bank that sparkles**
- Leverage the special features of the Tokyo area to continue to meet new challenges in order to contribute to the development of our customers and of local economies **A bank that rises to the challenge**
- We put great value on the "ideas" of customers, the region, and our employees so as to become a necessary and always trusted presence **A bank that brings together ideas**



Message from management

I thank you all for your patronage and support.

As part of its efforts to strengthen competitiveness and management efficiency still further, the Group took a step forward in the integration of its business by way of a company holding structure with the merger of three subsidiary banks (Tokyo Tomin Bank, Yachiyo Bank and ShinGinko Tokyo), effective May 1, 2018, and making a new start as Kiraboshi Bank.

To reflect this merger, the business name of the holding company was changed from Tokyo TY Financial Group, Inc. to Tokyo Kiraboshi Financial Group, Inc.

With a management philosophy of “to be a financial group for small and medium-sized enterprise customers and individual customers in the Tokyo metropolitan area that will contribute to the development of local communities through comprehensive financial services,” we aspire to become the urban regional bank group most favored by customers in the Tokyo metropolitan area.

Taking the opportunity presented by the merger of the three banks, the Group began the medium-term business plan Start-up☆Kiraboshi in May 2018, which is scheduled to end in FY2020, and is based on a future image of the Group as “a comprehensive service business that is also strong in finance.”

Based on this policy, through our approach of building business models with dialogue as the starting point, we will use dialogue with customers to create proposals aimed at solving their problems, seeking to become the bank to which customers give the “first call,” and further progressing our initiatives to create shared value with customers.

Going forward, we will maximize the positive effects of the integration and merger, leveraging the collective strength of the Group and working with our customers in the region in order to contribute to the sustainable development of the local economy and local communities.

On behalf of the Group, I ask for your continued support and encouragement in the future.



President
Keizo Ajioka

July 2019
Tokyo Kiraboshi Financial Group, Inc.

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Message from management

First, I would like to express my gratitude to you all for your support. Kiraboshi Bank came into being in May 2018 and, due to your good offices, was recently able to celebrate its first anniversary.

I am deeply grateful for your patronage.

With regard to the cases of misconduct that were discovered in July 2018 and May 2019, I offer our heartfelt apologies for the anxiety and trouble these have caused both to customers and to those living and working in the region.

Taking the opportunity presented by the merger of the three banks, the Bank began the medium-term business plan Start-up☆Kiraboshi in May 2018, based on a future image of the Group as “a comprehensive service business that is also strong in finance.”

As we implement this plan, we at the Bank pay a great deal of attention to dialogue with customers.

In order to enable the dreams of small and medium-sized enterprise and individual customers to bloom magnificently, and contribute to the development of local communities, we are committed to staying close with our customers, responding to their increasingly diverse and sophisticated needs by engaging in dialogue with them.

The problems faced by customers are not limited to financial services.

The Bank works to solve problems by using dialogue as the starting point to leverage the individual capabilities of our employees as well as the collective strength of the Group companies.

Our aim is to be the bank to which the customer gives the first call when they encounter any kind of problem, and going forward we will continue to deal sincerely with each and every customer, providing the optimal consulting business for them.

On behalf of the Bank, I ask for your continued support and encouragement in the future.



President
Hisanobu Watanabe

July 2019
Kiraboshi Bank, Ltd.



Message from top management

Message from top management

Aiming to be a comprehensive service business that is also strong in finance, and the one to which the customer gives the first call

Tokyo Kiraboshi Financial Group, Inc.
President

Keizo Ajioka

Introduction

The business environment in which regional banks operate is changing to an unprecedented degree, as a result of such trends as the prolongation of low-interest rate policies, the advance of digital innovation and the aging of the population, requiring the construction of a business model predicated on, and that takes into account, such changes.

It was in this environment that, taking the opportunity presented by the merger of its three banks in May 2018, the Group drew up the medium-term business plan Start-up☆Kiraboshi, taking various measures aimed at becoming the trusted bank to which the customer gives the first call, constructing business models with dialogue as the starting point, and strengthening our consulting function.

In addition, in April 2019 we formed a team to consider our brand strategy going forward, with the assistance of outside officers who have insight and experience in this area, and are in the process of developing individual measures.

► Business results for FY2018

Tokyo Kiraboshi Financial Group's consolidated business results for the year ended March 31, 2019 (FY2018) showed approximately ¥4.9 billion in profit, which was an increase over the ¥3.6 billion or so of the previous year, and which also exceeded the estimated ¥4.2 billion, in a performance befitting the first fiscal year of the medium-term business plan.

Gross business profit fell mainly due to a year-on-year decline in loan yields, but the realization of the positive effects of the integration and merger led to lower expenses and provided support for profits.

In terms of the top line also, loan yields rose on a new execution basis due to the bolstering of lending to small and medium-sized enterprises, resulting in the beginning of a bottoming-out in yields on an outstanding loan basis, while there were other promising developments that should lead to profit growth in the future, such as a rise in fees and commissions income stemming from the strengthening of the consulting function.

Our future business operations

► Realizing maximum effects from integration and merger

From the perspective of maximizing the realization of integration and synergistic effects, the Group has taken various steps including (1) streamlining staff, primarily headquarters personnel, (2) consolidating locations using a "branch in branch" format for

neighboring branch offices, and (3) partially integrating systems.

As a result, in FY2018, the effects of reductions in expenses and efficiency gains exceeded the costs of the merger and systems integration.

Going forward, due to the complete integration of systems scheduled for May 2020, and the further consolidation and slimming-down of branches, these integration effects are expected to grow year by year, such that we project ¥10.5 billion or more annually in expense-reduction effects in FY2022 (equivalent to approximately 20% of expenses in FY2017, before the merger).

Furthermore, based on progress made in the streamlining of headquarters personnel, the decision has been taken to sell the Shinjuku office, which is one of two head office locations, so that headquarters can be consolidated in the Aoyama office. Various procedures to implement this are now under way.

The issue of realizing maximum positive effects as a regional banking group, after the integration and merger, will remain one of management's top priorities going forward.

▶ Leveraging the advantages of the Tokyo area to tackle business challenges

The Tokyo area, which constitutes the operational base of the Group, is an abundant market, and has Japan's greatest concentration of economic strength.

The population is expected to grow for the time being, and as companies from a variety of industries are clustered here, the region also has a robust retail customer base.

In order to leverage these advantages, we are focusing on (1) strengthening (by establishing the SF Division) headquarters sales structure, which is involved in the provision of highly specialized financial support, such as financing based on business feasibility evaluations and structured finance, (2) collaborating with administrative and public financial institutions, and fund companies, to support companies from start-up, through the growth phase, and into maturity, (3) using trust products, such as public construction cost credit trusts and real estate management trusts, that leverage our advantages as a bank engaged in trust business activities, and (4) strengthening customer-oriented retail sales with the aim of stable asset formation.

In addition, so as to respond with a sense of speed to specific customer and regional needs, substantial authority has been delegated to the seven regional headquarters (Joto, Johoku/Nishi Tokyo, Josai, Jonan, Tama, Machida/Yokohama/Kawasaki,

Sagamihara/Central Kanagawa) as well as large branches in Central Tokyo area, with various initiatives with close ties to local communities being implemented under the guidance of regional general managers of executive-officer level.

▶ Strengthening consulting business by using dialogue with the customer as the starting point

The medium-term business plan that was drawn up on the occasion of the merger of the three banks recognizes as an issue the transition from the previous lending-centric business model to a business model focused on consulting, based on which there has been a sharp turn towards a consulting business that uses dialogue with the customer as the starting point.

Based on this policy, the number of "first call" contacts has been set as a numerical target, in addition to figures for profit and expense ratios.

This is the number of corporate customers to which proposals were made to support their mainstay operations, and the number of individual customers to which proposals were made to support their life plans.

In FY2018, which was in effect the first year after the merger, 11,290 such contacts were made, compared to a target of 7,000, with about 6,000 of these resulting in the conclusion of contracts.

Rather than aiming for short-term profits, this initiative puts the emphasis on profits over the medium to long-term, but in FY2018 we were able to generate more than ¥2.0 billion in profit from this.

We received approximately 5,000 responses to a customer survey, in which 97% of respondents assigned us 4 stars or more out of 5 for the overall rating, and in which 82% gave 4 stars or more in response to the question "Would you recommend the bank to your friends?", which we believe indicates that the "first call" initiative has achieved a certain level of recognition.

Going forward, while going through the PDCA cycle by using dialogue with customers and by conducting customer surveys, our policy is to work to enhance the added-value component of our proposals, improve the skills of the employees creating the proposals, and work steadily on human resources development.

▶ Developing networks by promoting partnership with external organizations

In order to respond

appropriately to the varied needs of customers, we are actively promoting partnership with external organizations. In addition to local government such as the Tokyo Metropolitan Government and related organizations, other financial institutions and funds, in January 2019 we signed a "Comprehensive collaboration agreement concerning support for small and medium-sized enterprises" with the Tokyo Chamber of Commerce and Industry.

Going forward, we will maintain our policy of working closely with external organizations, while striving to provide value-added services as a regional bank, such as support for customer funding, management, technology, and the recruitment and retention of personnel.

▶ Strengthening group management

In addition to promoting partnership with external organizations in pursuit of the future image of "a comprehensive service business that is also strong in finance," it is also important to raise the collective strength of the Group.

As well as the new companies established for strategic reasons, such as the consulting company, capital company and FinTech company, we are also considering establishing a securities company and a company in which to consolidate the back office operations of the Group (personnel, general administration, accounting, etc.). In addition to these, our policy is to strengthen and review structures and functions from the perspective of further enhancing the corporate value of the Group as a whole, including that of existing Group companies.

Moreover, based on the recently expressed needs of small to medium-sized enterprises, following on from the existing consulting subsidiary in Shanghai, China, we plan to open a new consulting subsidiary in October 2019, in Ho Chi Minh, Vietnam.



Signing ceremony for the "Comprehensive collaboration agreement concerning support for small and medium-sized enterprises" with the Tokyo Chamber of Commerce and Industry

In addition to our previous initiatives of dispatching personnel to local banks in Thailand and Vietnam, we are working to further strengthen our Asian strategy through such moves as investing in and sending personnel to a local fund in Singapore, and promoting an alliance with Shinhan Bank Japan, the Japanese subsidiary of South Korea's Shinhan Financial Group.

▶ **Business process re-engineering to strengthen contact with customers**

In order to strengthen contact with customers, it is necessary to promote parallel improvements in operational efficiency and productivity.

Accordingly, a specialized team has been established in the headquarters. In addition to making operations more efficient, such as by using IT to centralize expense settlements administration, and promoting improvements in the efficiency of sales office administration, including measures to streamline change-of-address procedures and inheritance administration, this team has begun conducting teleworking trials using tablet computers.

After the system integration scheduled for completion in May 2020, the plan is to move forward with fundamental business process re-engineering aimed at next-generation branches.

▶ **Developing "Kiraboshi People" who can win the trust of customers**

The financial sector is a service industry, and we believe that the value added in a service industry is determined by the people who provide that service.

Accordingly, human resource development should be the highest priority for management.

The Group refers to people who are able to win the trust of customers, think and act by putting themselves in their shoes, and experience success as a result as "Kiraboshi People," and is implementing a range of related initiatives.

Specifically, as well as providing education and business skills through on-the-job training and group training, we have implemented special programs for individuals to pursue by themselves, with the aim of developing personnel who take up the challenge of innovation; training camp for mid-career staff jointly with officers; and an active program of dispatching people to external organizations to allow them to experience a diversity of viewpoints (administrative organizations, economic organizations, graduate schools, overseas banks, etc.).

Furthermore, it is important to put in place a personnel data infrastructure to enable the assignment of the right human resources to the right

positions, as well as fine-tuned personnel management. Partly due to the increase in scale resulting from the merger, we are putting in place and utilizing new infrastructure that uses technologies such as AI.

Based on our view that "there is no such thing as investing too much in people," we plan to continue taking active measures to develop "Kiraboshi People" going forward.

▶ **Strengthening governance and risk management**

Strengthening governance and risk management is an important issue.

While promoting the strengthening of the supervisory function by utilizing the diverse perspectives and insights of outside officers, we must ensure that decision-making in relation to business operations is transparent, fair, speedy and bold.

In part due to this perspective, after obtaining a resolution at the General Shareholders Meeting held on June 27, 2019, the number of outside directors was increased from two to three people.

In terms of compliance, we regard a fundamental rethink of how we prevent misconduct, and the strengthening of measures to prevent money laundering and combat the financing of terrorism to be the most important issues in the short term, and are taking proactive steps to deal with these.

In terms of credit risk management, as well as improving our monitoring of warning signals for economic slowdown, we are investigating the introduction of basic internal credit ratings to facilitate more sophisticated risk management.

In terms of managing market risk, we have begun applying appropriate control of interest rate risk, predicated on new regulations (IRRBB).

For internal audits, as well as putting in place an operational structure that utilizes external experts in relation to important themes such as the system integration project and measures to prevent money laundering, going forward we will consider the use of third-party evaluation organizations.

Further, from the viewpoint of achieving sustainable growth with a good balance of income, risk and capital, we have started trial implementation of Risk Appetite Framework (RAF).

▶ **Basic policy on returns to shareholders**

The Group takes into account the public nature of its role as a bank holding company, so that as well as striving to ensure financial soundness



by maintaining appropriate internal reserves, it regards returning profits to shareholders as a key management priority, having adopted a basic policy of implementing consistent and stable dividends.

▶ **SDG initiatives**

The Group believes that initiatives to achieve the sustainable development goals (SDGs) adopted by the 2015 UN summit play an important role in creating societal value, and in contributing to the development of local communities.

Accordingly, the Group has drawn up an SDG declaration in which the major themes are (1) environmental protection, (2) contribution to the local community, (3) creation of shared value with the customer, (4) employees' work style reform and promotion of diversity, and (5) dialogue with shareholders and investors, and is carrying out a wide range of related initiatives.

We regard the SDGs as a significant pivot point for management, and will continue to take a variety of measures related to them going forward.

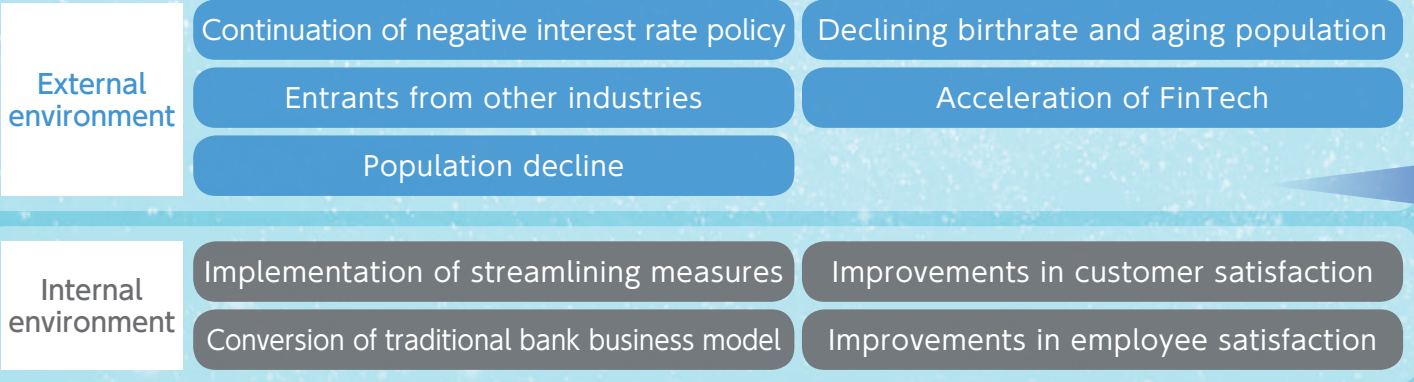
▶ **Conclusion**

The business environment in which regional banks operate is changing to an unprecedented degree.

While realizing the maximum integration and synergistic effects as a regional banking group after the integration and merger, we will leverage the advantages of having the Group's operational base in Tokyo, which is Japan's greatest concentration of economic strength, aiming to be a comprehensive service business that is also strong in finance, and the one to which the customer gives the first call.

We humbly ask for your continued gracious patronage and support of the Group as we move forward into the future.

Establishing the “comprehensive service business that is also strong in finance” Group brand



Future image

“A comprehensive service business that is also strong in finance”

Medium-Term Business Plan/Start-up Kiraboshi

Period

May 2018 – March 2021 (3 years)

Numerical targets

Tokyo Kiraboshi FG Profit ¥6.0 billion <Fiscal year ending March 31, 2021>

Kiraboshi Bank, Ltd. Net core business income ¥12.5 billion } Fiscal year ending
OHR 80% } March 31, 2021
Number of first call contacts* 7,000 annually

*First call contacts
•Number of proposals made to support mainstay operations (corporates, own-er-managers)
•Number of proposals made to support of life plans (individuals)

Progress status	2019/3 results			2020/3 plan			2021/3 target		
	First call contacts	Achievement ratio	Annual target	2019/3 results	2020/3 plan	2021/3 target	2019/3 results	2020/3 plan	2021/3 target
Consulting business	11,290	161.2%	7,000	¥4.9 billion	¥5.1 billion	¥6.0 billion	¥13.0 billion	¥12.8 billion	¥12.5 billion
(of which, financing based on business feasibility evaluations)	(1,153)	(192.1%)	(600)				80.7%	80.4%	80%

Concept

- (1) Creation of a “new kind of urban regional bank for the Tokyo area”
- (2) Commitment by the Group to contribute to the development of the Tokyo area (with a tangible presence in the Tokyo area)
- (3) Start-up spirit based on “Challenge & Speed”

Business model

“Building a business model that takes dialogue as its starting point”
We aim at a management approach that, by maintaining “high-quality” contacts with customers, local communities, investors and employees, improves satisfaction for everybody

Main measures

- (1) **Enrichment of consulting functions**
Through enrichment of consulting functions, aim to be a bank to which customers will give the first call.
- (2) **Human resources development focusing on dialogue abilities for being chosen and trusted**
Developing “Kiraboshi People”
“Kiraboshi People” are able to win the trust of customers, think and act by putting themselves in their shoes, and experience success as a result
- (3) **Business process re-engineering to strengthen contact with customers**
Realize work styles that make tangible the meaningfulness of work and enable emotional fulfillment through reform of awareness and value of work.

Leverage the collective strength of the Group in pursuit of the future image

[Consulting]

- Kiraboshi Consulting (established in April 2017)
- Kiraboshi Business Consulting Shanghai

[Guaranty company]

- Kiraboshi Credit Guarantee
- Yachiyo Credit Guarantee

[Cards]

- Kiraboshi JCB
- Kiraboshi Credit Service

[Various services]

- Kiraboshi Business Service
- Kiraboshi Service

[IT]

- Kiraboshi System

[Leasing]

- Tokyo Kiraboshi Lease

[Fund structuring / administration]

- Kiraboshi Capital (established in September 2018)

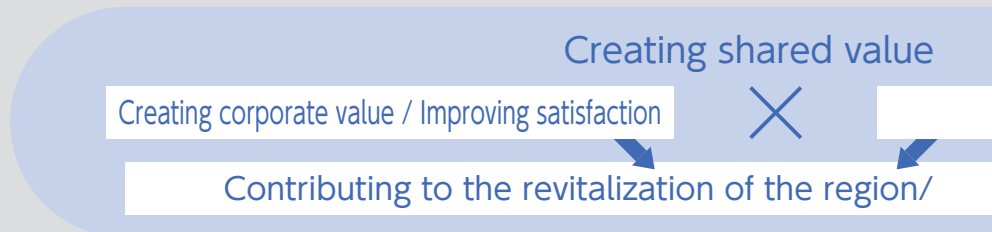
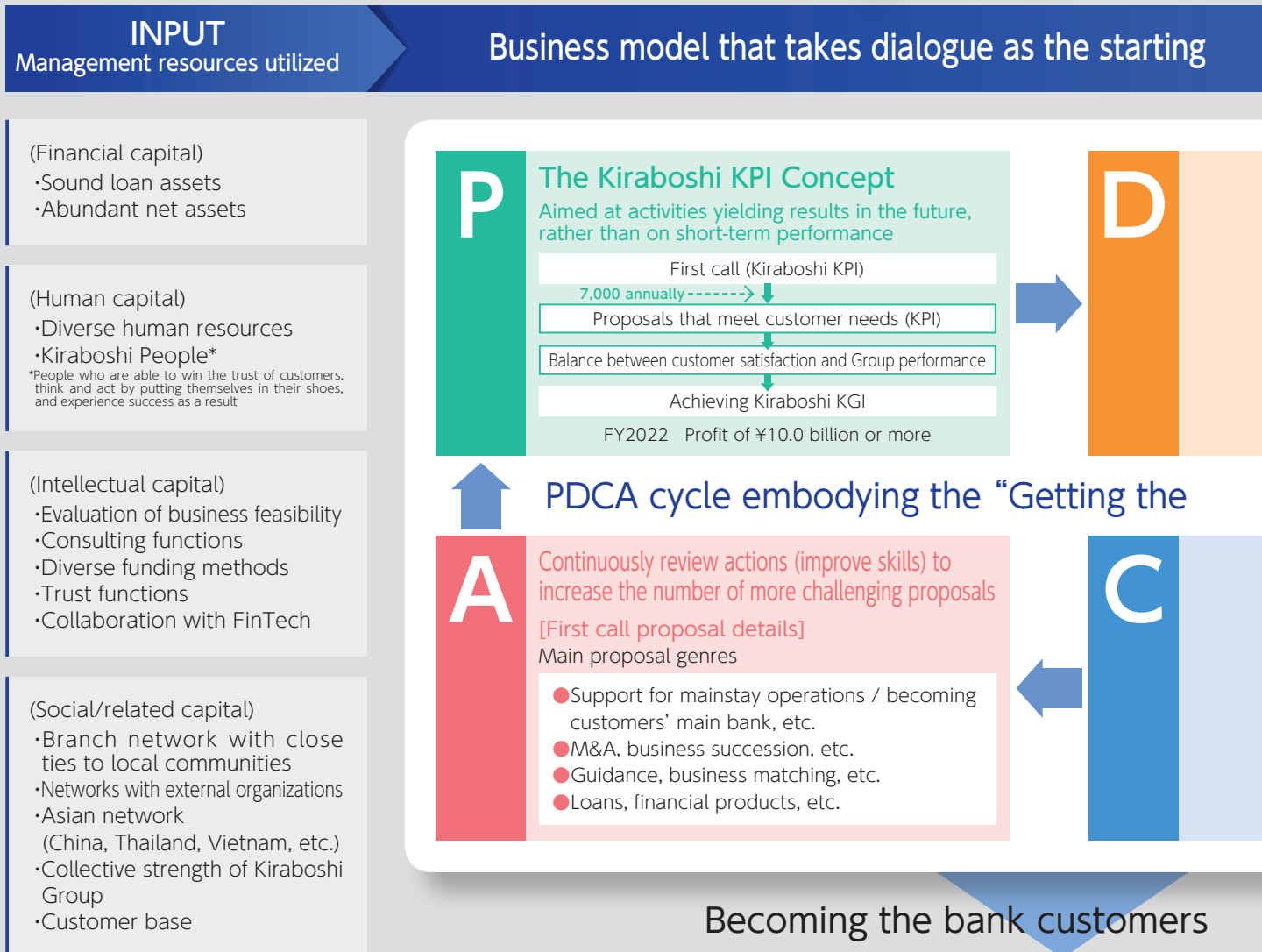
[Use of FinTech]

- Kiraboshi Tech (established in November 2017)

Business model

Tokyo Kiraboshi Financial Group's Strengths

- Operational base in Tokyo area, Japan's greatest concentration of economic
- Has a history of working for SMEs in collaboration with local governments such
- In addition to a lending-centric business model, is actively promoting a



A business model that starts with an understanding of the customer,

[Robust management base that supports our business model]

Corporate governance, integrated risk management, compliance, financial capital, human capital, intellectual capital, social/related capital

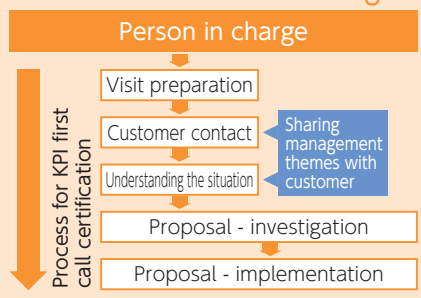
strength
 as Tokyo Metropolitan Government and related organizations
 consulting business that makes dialogue with the customer as the starting point

point (the “first call cycle”)

OUTPUT
 Product/service being proposed

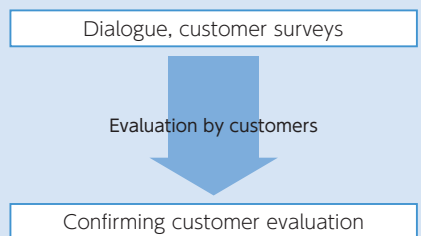
Creating value with stakeholders

Actions for Kiraboshi KPI targets



“first call” concept

Evaluation by customers
 (Carry out checks from a customer’s perspective)



call first

Expanding operational base

regional development

and in which being selected by them ultimately leads to profits

[CSR management]

Based on its management philosophy, the Group seeks to help form sustainable local communities through the three action areas of “contribution to the local economy,” “contribution to local communities,” and “initiatives for environmental problems.”

Services for individuals

- Deposits
- Asset management / administration (investment trusts, government bonds, insurance, etc.)
- Housing loans / loans for specific purposes
- ...etc.

Services for corporations

- Loans, forex, trust functions
- Equity finance
- Consulting services
- Business matching
- Supporting start-ups, M&A, business succession
- Support for overseas expansion
- ...etc.

Other

- Regional headquarters structure
- Intra-group collaboration
- External collaboration
- Maekyu service
- Internet banking
- Kiraboshi Bank app
- ...etc.

Creating shared value

Customer

- Providing highly specialized consulting services through dialogue
- Realizing customer-oriented business operations
- Enhanced convenience

Environment / local communities

- Initiative to contribute to environmental problems such as the aging of society and climate change
- Contributing to the sustainable development of local communities, which is the operational base of the Group
- Resolving societal issues through our mainstay operations

Employees

- Developing “Kiraboshi People”
- Putting in place an environment in which diverse human resources can work to implement the business model
- Achieving work-life balance by providing flexible work styles
- Involvement of diverse human resources

Shareholders and investors

- Maximizing shareholder value over the medium to long-term
- Constructive dialogue
- Highly transparent disclosure including non-financial information

Toward sustainable development



Tokyo Kiraboshi Financial Group SDG Declaration

The Tokyo Kiraboshi Financial Group aims to be “a comprehensive service business that is also strong in finance.” Based on its management philosophy of “to be a financial group for small and medium-sized enterprise customers and individual customers in the Tokyo metropolitan area that will contribute to the development of local communities through comprehensive financial services,” the Group is working, through its corporate activities, on initiatives related to the SDGs adopted by the United Nations summit, and seeking to realize a sustainable society and to create shared societal value.

To achieve the Sustainable Development Goals (“SDGs”) adopted by the United Nations in 2015, the Group has drawn up a “Tokyo Kiraboshi Financial Group SDG Declaration,” the main themes of which are (1) environmental protection, (2) contributing to local communities, (3) creation of shared value with the customer, (4) Employee’s work style reform and Promotion of diversity and (5) dialogue with shareholders and investors, all of which have a close affinity to the management philosophy and its three CSR action areas, with the objective of working to resolve societal needs and problems through the provision of a variety of products, services and the CSR activities.

Environmental protection

In order to leave to those people living in local communities, and to the children who will be the bearers of the next generation, a future environment that enables a safe and abundant future lifestyle and one in which they can live securely and healthily, the Group is taking measures to conserve and protect the environment that take into account climate change and global warming, and striving to help realize a sustainable society by means of its local environmental activities and financial services.



Shareholders and investors

Dialogue with shareholders and investors

In order to achieve sustainable development for the Company and enhance shareholder value, as well as raise the transparency and objectivity of management, we are striving to assist in the development of local communities through strengthening structures associated with corporate governance and working to ensure compliance.





Contributing to local communities

While deepening our dialogue with customers and those living in local communities, we take initiatives to create a safe and abundant society in which everybody can live securely and healthily, and work to realize a sustainable society.



Creation of shared value with the customer

By utilizing financing and various kinds of funds based on business feasibility evaluations, as well as providing sophisticated consulting functions in such areas as business start-up, the expansion of sales channels, and business succession that match the company's stage of life, we will create shared value with the customer, and contribute to the sustainable growth of the local economy.



Employee's work style reform and Promotion of diversity

In addition to promoting Kenko Keiei (health and productivity management*) by encouraging a work-life balance, the Group is taking steps that include supporting the contribution of women, and creating an environment in which all employees, irrespective of gender or age, can feel satisfaction in their work, thus facilitating the development of diverse human resources and the realization of diverse work styles.



*"Kenko Keiei" is a registered trademark of Workshop for the Management of Health on Company and Employee

E Environment

Environmental protection ... P13



S Social

Contributing to local communities P15



Creation of shared value with the customer P17



Initiatives for corporate customers
Initiatives for individual customers

Employee's work style reform and Promotion of diversity P23



G Governance (corporate control)

Dialogue with shareholders and investors P25



Tokyo Kiraboshi Financial Group's basic policy on CSR

The Tokyo Kiraboshi Financial Group aspires to become the region's No. 1 urban regional bank, and we regard the practice of CSR management to contribute to the formation of sustainable local communities as one of management's key priorities. Based on its management philosophy, the Group is actively involved in CSR activities in the three action areas of "contribution to the local economy," "contribution to local communities," and "initiatives for environmental problems."



Environmental protection



In order to leave to those people living in local communities, and to the children who will be the bearers of the next generation, a future environment that enables a safe and abundant future lifestyle and one in which they can live securely and healthily, the Group is taking measures to conserve and protect the environment that take into account climate change and global warming, and striving to help realize a sustainable society by means of its local environmental activities and financial services.

Investments in green bonds/green finance

With interest in Environmental, Social and Governance (ESG) investing rising on a global scale, there has been an expansion in green investing initiatives that seek to deploy funds into environmental businesses and businesses that generate environmental improvements, etc.

In addition to investing in the “Tokyo Green Bonds” that the Tokyo Metropolitan Government sold in October 2017 as the first such instruments issued by a local governmental entity in Japan, the Group invested in the Green Jointly Operated Designated Money Trust (product name “The UUR Green Trust”) structured by Sumitomo Mitsui Trust Bank in September 2018.



Protection of the natural environment (setting up parks)



Response to climate change (installation of high-tide defense facilities)

(Photo credit: courtesy of Tokyo Metropolitan Government)

Environmentally aware branch equipment

So as to reduce CO₂ emissions, the Shinjuku and Aoyama offices use environmentally friendly facilities such as solar power generation, the reuse of rainwater, and the creation of rooftop greenery. We are also moving forward with environmentally aware branch designs, such as switching branch lighting to LED bulbs.

Furthermore, we are working on initiatives to counter global warming through our business activities, such as offering financial products and services that lead to environmental protection.



Shinjuku office



Aoyama office

Certified under the “Tokyo Forest Action” accreditation

With regard to the Kiraboshi Bank Aoyama head office and the Takinogawa branch (and central operations center) that were constructed using materials from Tama, the use of Tokyo forestry resources was appreciated by the Tokyo Metropolitan Government, which certified the Group under the “Tokyo Forest Action accreditation system (recognition of CO₂ volume fixed by means of buildings, etc.).”



Takinogawa branch (and central operations center)



Aoyama head office

Signing of collaboration agreement relating to planting of “Corporate Forests - Kiraboshi Forest” forestry resources

As part of the “the campaign for growing low pollen forests,” the Group signed a collaboration agreement related to the planting of “Corporate Forests - Kiraboshi Forest” forestry resources in March 2019, through which it will encourage sustainable forestry management through forest protection activities.



Cooperating with “campaign for growing low pollen forests”

The Group’s Kiraboshi Bank is extending its cooperation to the “the campaign for growing low pollen forests” in order to allow healthy forests to be maintained into the future, while also contributing to efforts to prevent global warming. As part of these efforts, it makes a donation every year to the Tokyo Development Foundation for Agriculture, Forestry and Fisheries’ “donation for growing low pollen forests.”



Provision of environmentally aware products

The Group’s Kiraboshi Bank offers environmentally aware financial products, such as “growing low pollen forests” term deposit accounts and “Nikko Eco Fund (an Internet-only product).”

Such deposits result in donations to the Tokyo Development Foundation for Agriculture, Forestry and Fisheries’ “donation for growing low pollen forests.”



Kiraboshi Eco Passbook (web passbook), Kiraboshi Bank app

The Kiraboshi Eco Passbook* (Web passbook) is a web passbook service that, instead of a paper passbook, can be used to confirm up to 37 months of transaction details in a Kiraboshi Home Direct account.

The Kiraboshi Bank app is a free smartphone app* that can be used to view account activity and balance information in the way similar to that of a paper passbook. This environmentally friendly service results in a reduction in paper resource usage.

*Cannot be used with accounts at branches of the former Yachiyo Bank, Limited.



The actions of each and every individual are important

Our SDG initiatives are not limited only to the activities of the organization. The actions of each and every individual are also required for the achievement of these goals. As the everyday behavior of each of our employees also relates to the SDGs, we will here introduce a selection of the day-to-day actions taken by them. Going forward, our employees will work as one toward the achievement of the SDGs.

- Drive to save electricity by turning off lights in places where no people are present
- Adoption of “Cool Biz” and “Warm Biz”
- Recommending use of own reusable bag and bottle
- PET bottle recycling programs etc.



Contributing to local communities



While deepening our dialogue with customers and those living in local communities, we take initiatives to create a safe and abundant society in which everybody can live securely and healthily, and work to realize a sustainable society.

CSR initiatives through the promotion of sports

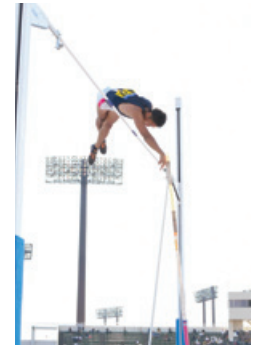
On "Kiraboshi Bank Day," which we hold every year as a support event in collaboration with TOKYO FOOTBALL CLUB Co., Ltd., which manages the "FC Tokyo" J. League club, we award funds for children's education. We endorse the "SPORTS of HEART" project, which aims to create a Japan in which everybody can share a rich and fulfilling life, and we also sponsored the "SPORTS of HEART 2018" sports and culture festival, which can be enjoyed both by those with and without disabilities. In addition, in April 2019 we hired two top athletes for the first time, and going forward we will continue to contribute to the development of local communities through the promotion of sports.



Kiraboshi Bank Day ©FC Tokyo



Dan Iwasa
(speed skating - short track)



Shingo Sawa
(Athletics - pole vault)

Sponsorship of local marathon events

December 2018 saw the holding of "MINATO City Half Marathon 2018," the first-ever marathon event held by Minato City, in which more than 5,000 runners took part. As a financial institution whose head office is located in Minato City, we were sponsors of this marathon event.

In March 2019, as part of the "Community Dialogue Project" run by the Johoku/Nishi Tokyo regional headquarters, the Group sponsored the "Nerima Kobushi Half Marathon," in addition to which many employees played an active role as volunteers.



Staff and others who participated
"Nerima Kobushi Half Marathon"

Cooperation with TEAM BEYOND

The Group is registered at the "TEAM BEYOND*" fan site set up by the Tokyo Metropolitan Government for sports for those with disabilities (para sports), and cooperates in the promotion of para sports.

*TEAM BEYOND is a Tokyo-based team that seeks to create a future in which everybody can express their individuality through para sports.



Initiatives for training "dementia supporters"

Against the backdrop of the rapid aging of society, we are carrying out initiatives to train "dementia supporters" with the aim of achieving local communities in which those suffering from dementia and their families can have peace of mind in their daily lives.

The Group has implemented initiatives whereby people can obtain "dementia supporter" qualifications, and "dementia supporters" are assigned to each department and branch.



Educational support for students and children

Through sponsorship of the Japan Football Association's "JFA Kokoro Project," we support the "Dream Class" program in which "Dream-Teachers," whose members include currently active athletes and former alumni of the project, and who convey "the importance of having a dream" mostly to audiences consisting mainly of 5th-grade elementary school children.



Dream-Teacher: Naohiro Ishikawa (soccer)

Certified as a “Tokyo Sports Promotion Company”

The Group hosts the “Dream Cup” as part of its CSR measures for the sound development of local children. We sponsor sports events in local communities, such as soccer events for girls and local volleyball. These initiatives have received widespread recognition, leading to the Company being certified by the Bureau of Tokyo 2020 Olympic and Paralympic Games Preparation as a “2018 Tokyo Sports Promotion Company.” We will continue to play an active part in sports promotion activities into the future.



Cooperating with blood donations

As part of our activities to support local communities, we also cooperate with blood donation drives. By continuing these activities so as to help save more lives, we cooperate with the blood donation centers of the Tokyo Japan Red Cross to enable us to save the precious lives of those who need blood transfusions due to illness or injury, and will carry on these endeavors into the future.



Cooperation with UNICEF fund-raising activities, etc.

The Group runs “a foreign coins collection program,” and the donations thus collected are put to use in support activities for children conducted by UNICEF in 150 or more countries and regions.

Also, within the Group, as part of our everyday volunteer activities we collect used stamps and cards and donate them to the Minato Council of Social Welfare.



Donations to Ronald McDonald House

Ronald McDonald House is operated by Ronald McDonald House Charities Japan, and offers accommodation to lighten the economic and emotional burden of seriously ill children and their families. The Group makes donations to this charity every year. We will continue with this support to enable children with a future to be supported by their families while they are cured of their illnesses, allowing them to grow strong and healthy.



ドナルド・マクドナルド・ハウス・
チャリティーズ・ジャパン

Initiatives for local art and cultural activities

The Group also sponsors the NIPPON STEEL Arts Foundation, which is based in the Kioi Hall. In addition, by sponsoring the creation and communication of the arts and culture, and the training and education of people in this area, such as by sponsoring the Tokyo Metropolitan Symphony Orchestra (support for seats for younger people), and by hosting the “Kiraboshi Christmas Concert” at the Aoyama office, the Group actively supports local art and cultural activities.



Kioi Hall

Creation of shared value with the customer

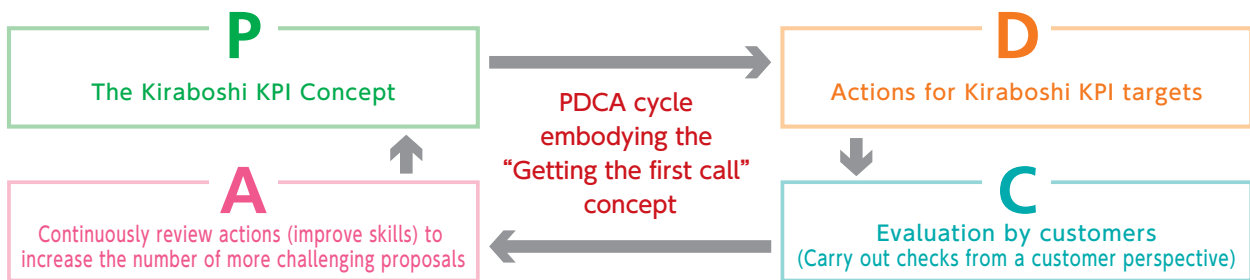


By utilizing financing and various kinds of funds based on business feasibility evaluations, as well as providing sophisticated consulting functions in such areas as business start-up, the expansion of sales channels, and business succession that match the company's stage of life, we will create shared value with the customer, and contribute to the sustainable growth of the local economy.

A business model that makes “dialogue” as its starting point – Building a structure in which the customer gives us the first call –

◆ Building a customer-orientated sales structure

- By gaining high-quality time with the customer, understanding their “real” needs and offering information and advice, we will establish a customer-orientated sales structure that will lead to enhanced customer satisfaction.
- Obtaining “first call contacts,” to which proposals are made in relation to support for mainstay operations or life plans, has been made a KPI, and in the fiscal year ended March 31, 2019 a total of 11,290 such contacts were made, significantly exceeding the annual target of 7,000. In addition, the survey that was carried out among those receiving such proposals has received a suitable level of appreciation.



Results of first call surveys (approximately 5,000 respondents)

- Approximately 70% gave 5 stars for “Overall satisfaction” and 97% gave “4 stars” or more

Questions	Ratings				
	5	4	3	2	1
(1) Satisfaction level with respect to bank employees' customer service	78.4%	18.8%	2.7%	0.1%	0.0%
(2) Satisfaction level with respect to proposals	66.8%	27.4%	5.5%	0.3%	0.0%
(3) Would you consider consulting on other matters in the future?	63.6%	25.2%	10.1%	0.7%	0.4%
(4) Would you like to recommend Kiraboshi Bank to your friends and acquaintances?	53.6%	28.5%	15.8%	0.9%	1.2%
(5) Overall satisfaction	67.6%	29.3%	3.0%	0.1%	0.0%

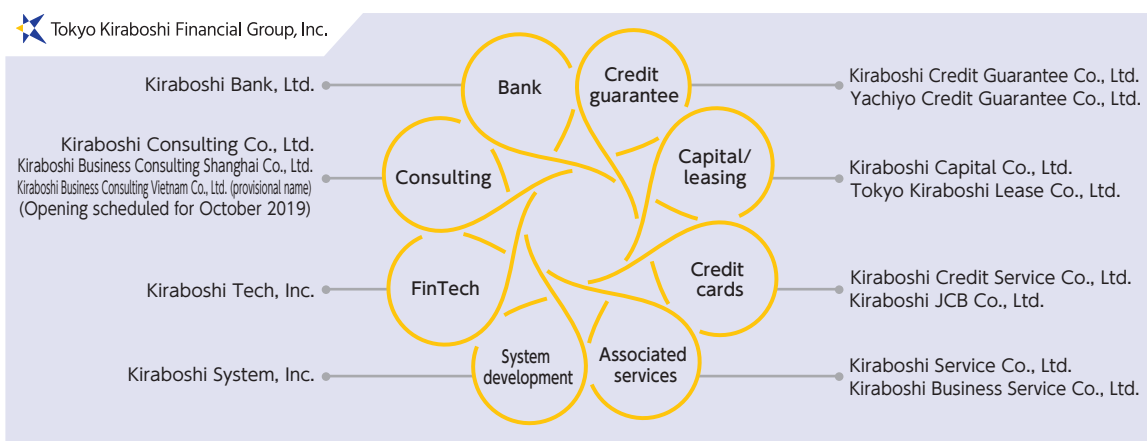
Examples of the “customer feedback”

- Feel reassured by kind response and customer-oriented advice.
- Response was prompt and accurate. Have been using the bank since its inception.
- We ask that Mr. (Ms.) ○○ remains in charge of our company.
- Compared to other banks, the employees are warmer, and make me want to keep using them.
- I would like to see that customers' perspective will be reflected even further in customer interaction.
- I hope that you will be a bank that thinks of its customers proactively.
- I think it would be good if there were free consultations with specialists on merits of financial transactions.

◆ Enhancing the collective strength of the Group

The Group is made up from the Company and 13 group companies and by providing a wide range of financial products and services to local people, is enhancing its collective strength to enable it to become “a comprehensive service business that is also strong in finance.”

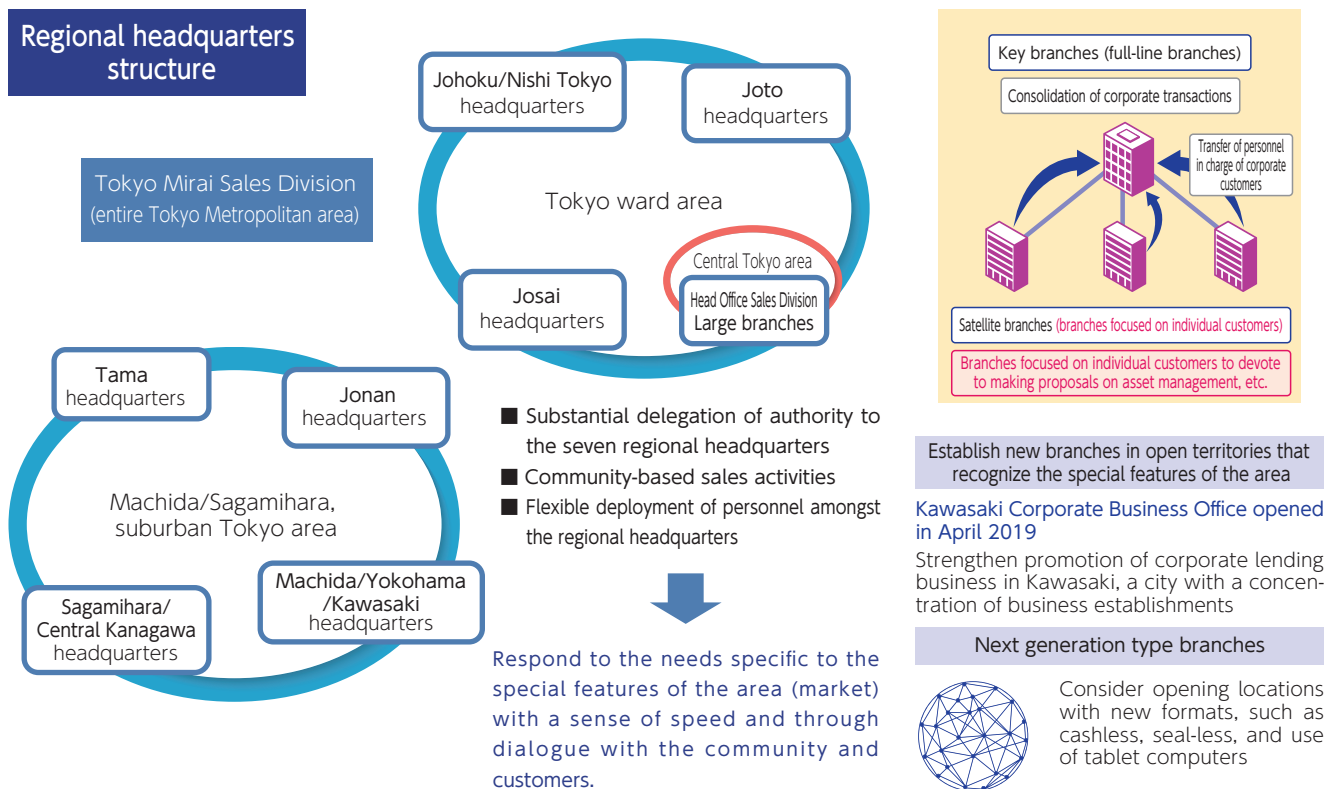
To make the operations of all the Group companies more efficient, we have set up a specialized internal department in which back office operations (personnel, general administration, accounting, etc.) are being steadily centralized.



◆Regional headquarters structure and a key satellite strategy

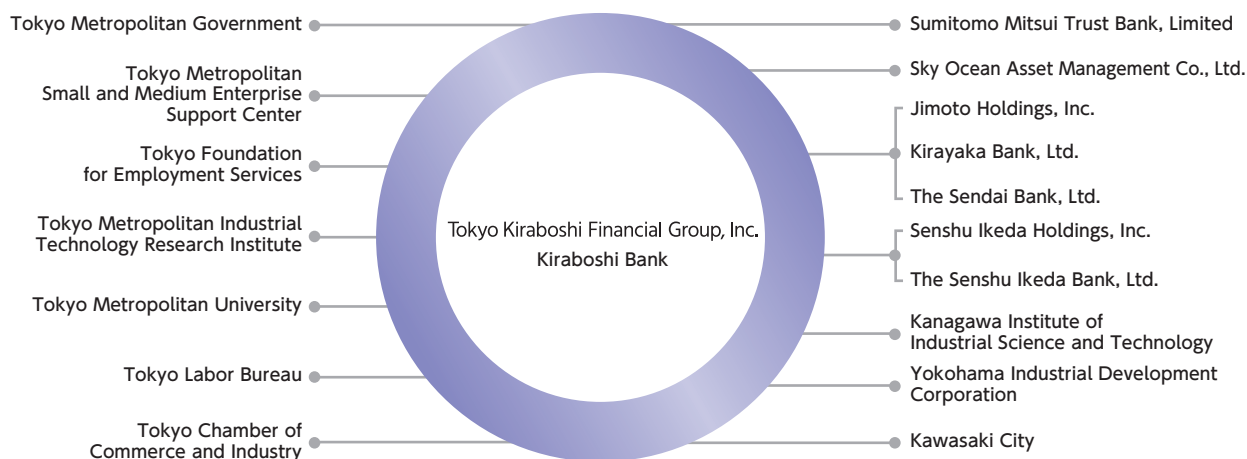
The Group has introduced a regional headquarters structure in preparation for “building a customer-oriented sales structure.” With each regional headquarters providing the centers, going forward we will develop close-knit “dialogue” with customers and regions.

By using the regional headquarters structure and key satellite strategy, as well as opening locations in open territories in such a way as to meet local characteristics and needs, we will build a network with “dialogue” as the starting point



◆Collaboration with external organizations

By strengthening consulting functions, as well as collaborating with local governments such as the Tokyo Metropolitan Government and related organizations, and other financial groups, we will respond to the diverse needs of customers, and aim to become the financial group to which they give the first call.



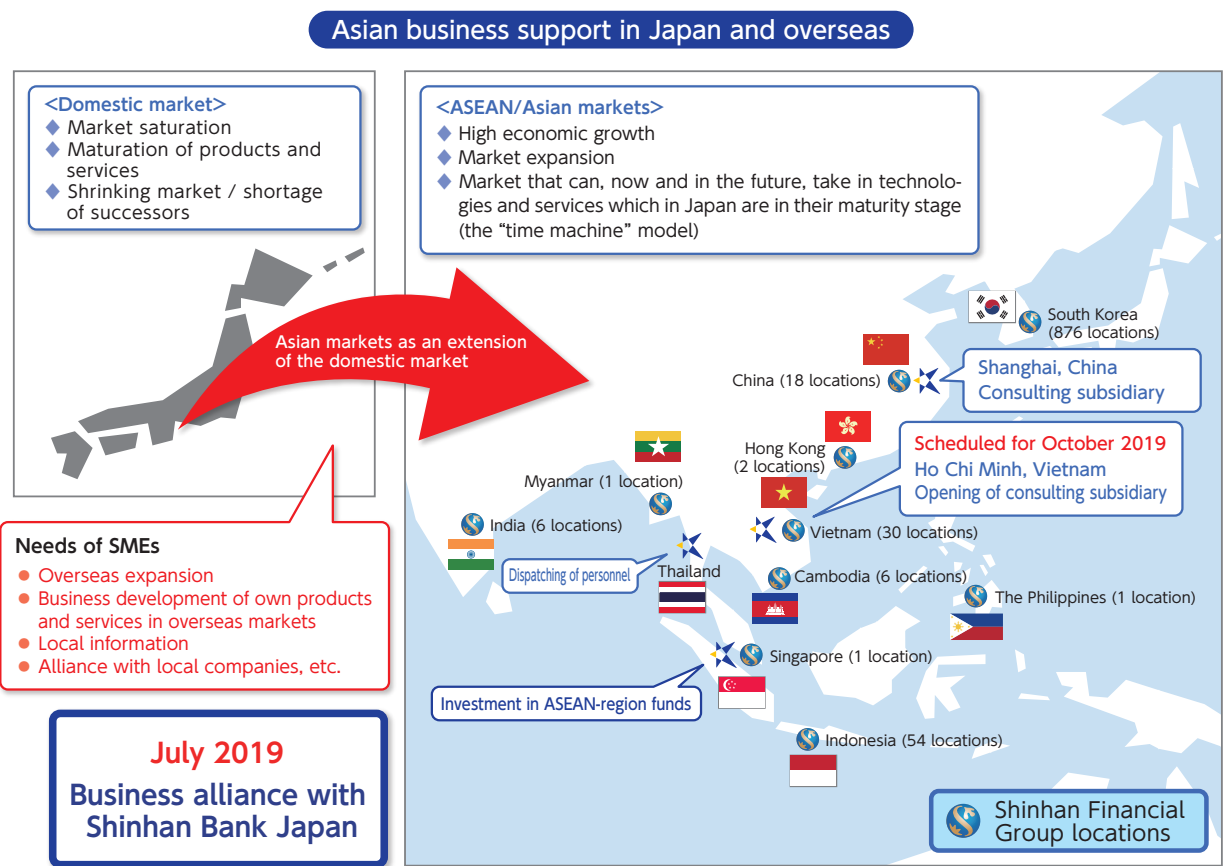
Creation of shared value with the customer

Support for expansion/operations overseas

From the perspective of the small and medium-sized enterprises in the Tokyo area that constitutes the operational base of the Group, overseas markets, and those in Asian regions in particular, are becoming increasingly important as an extension of the domestic market. At the same time, we believe that technology and services that are already mature in Japan will, going into the future, be readily accepted among Asian regions that are still in their growth phase (the "time machine" model). Moreover, in this situation local companies hold the potential to inherit businesses from Japanese companies, or to become joint operators of businesses and growth drivers. We will act as a bridge between such local Asian companies on the one hand and our customers on the other, developing the "New Overseas Strategy" described below in order to respond to customer needs.

◆Kiraboshi Bank's new overseas strategy

1. Provide opportunities to small and medium-sized enterprise customers for alliances, business matching and cross-border M&A, etc., with local Asian companies by offering information on such organizations.
2. Invest in or collaborate with offshore funds in order to obtain information on local Asian companies (Strengthen information network in Asian regions)
3. Following on from the only consulting subsidiary in Shanghai (China) operated by a regional financial institution, establish a consulting subsidiary in Ho Chi Minh, Vietnam (reinforce the China-plus-one support structure)



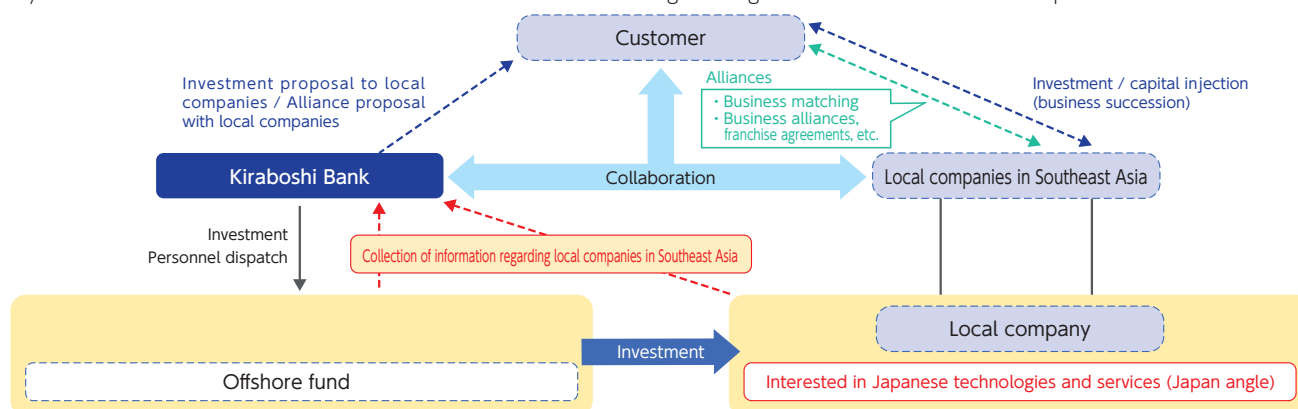
Our track record in terms of trade transactions handled is one of the best out of all regional banks nationwide (2019/3 results)

Import transactions (outward remittances/import settlements):	Export transactions (inward remittances/purchase of export bills):
Approx. 39,000	Approx. 11,000

Number of Kiraboshi Bank's counterparties in foreign exchange transactions (corporates and owner-managers) (as of March 31, 2019):
3,000 (up by about 100 year-on-year)

◆Support through offshore funds

Planning to invest in LP or send bank personnel to GP of offshore funds in order to respond to customers' needs in overseas buyouts and alliances. We will also move forward with information gathering and human resources development.



◆Support at diverse stages

Supporting business start-ups

The Company set up a "start-up support group," providing assistance for the various needs of founders and entrepreneurs, as well as providing bridges to external start-up support agencies. We have also been working to expand our menu of support, such as through an initiative with the Japan Finance Corporation for co-financing, and through the structuring of a venture capital fund with Free Bank Co., Ltd. called "ToKI Meki Support Fund 1."

Established "Kiraboshi Capital Co., Ltd."

"Kiraboshi Capital Co., Ltd.," established in September 2018, uses a variety of approaches, such as equity finance or mezzanine finance, to provide support for customers in both growth and mature phases to secure a robust financial position.

As well as structuring the "Yume Kagayaki Fund 1" for business successions in November 2018, in March 2019 it structured the new "Yume Habataki Fund 1," which is intended as an "equity financing response to organizations requiring additional capital in preparation for IPO, or support for growth."

Investment domain of fund



Selected benchmarks

	FY2016	FY2017	FY2018
Number of start-up support cases involving financial institutions	288	3,012	5,322
Support for drawing up start-up plans	41	1,529	687
Financing to customers during start-up period	190	1,058	1,173
Introducing financial agencies affiliated with the government and institutions supporting start-ups	53	276	1,192
Subsidies, financing and investment in venture businesses	4	149	2,270

*FY2017 count also includes cases received at sales offices

Proprietary benchmarks

	FY2016	FY2017	FY2018
Number of start-ups supported in partnership with local government organizations, etc.	52	194	1,053

Creation of shared value with the customer

Status of initiatives related to the support of management for small and medium-sized enterprises, as well as the revitalization of the region

<Offer consulting functions by leveraging contact with the broad customer base to which we have access as a local regional bank to display the specialization within the overall Group>

◆ Demonstrating consulting functions and strengthening relationships by leveraging contact with the broad customer base

The Group continues to aim to be the main bank for small and medium-sized enterprises in the Tokyo area, working to provide support for growth that helps raise customer productivity, demonstrating its consulting functions and striving to strengthen relationships.

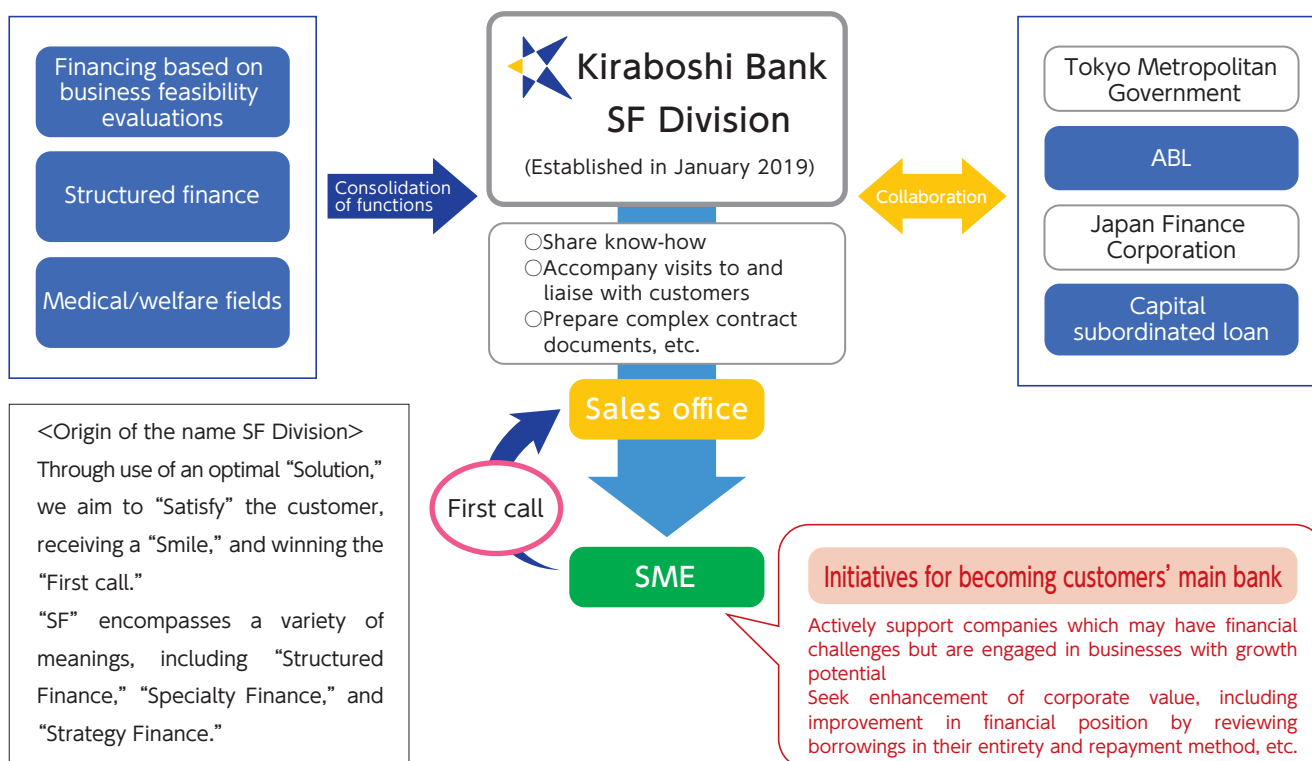
● Business matching

The Group works actively to provide venues for business discussions and for the exchange of information with customer companies, such as by assigning specialists in business matching. We host a variety of business discussion and information exchange meetings to support the expansion of our customers' sales channels.

Selected benchmarks		FY2016	FY2017	FY2018
Number of companies where support for expanding sales channels was provided	Local	480	745	891
	Overseas	105	103	140
	Total	585	848	1,031

◆ Establishment of SF Division and strengthening of functions

Establishment of SF Division, which handles highly specialized financial support, resulting in achieving increase in first calls received



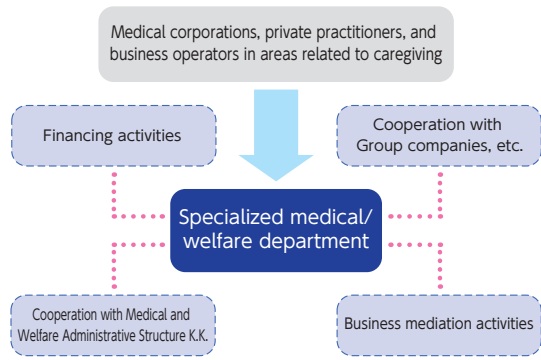
Selected benchmarks		FY2016	FY2017	FY2018		
Total number of customers and number of customers by region	Total number of customers	28,166	27,750	26,397		
	Number of customers by region	Local	Tokyo	21,310	21,040	19,867
			Kanagawa prefecture	5,652	5,484	5,231
		Non-local	1,204	1,226	1,299	

Shared benchmarks		FY2016	FY2017	FY2018
Among companies that conduct transactions with a financial institution as their main bank, the number (group) that has shown improvements in management indicators or increases in the number of employees	Number of companies using us as main bank	8,998	9,404	9,432
	Value of financing to companies using us as main bank	¥715.7 billion	¥777.5 billion	¥941.5 billion
	Number of companies showing improvement in management indicators, etc.	6,480	6,747	6,126

● Multifaceted support for medical/welfare field

In an environment characterized by the declining birthrate and aging population, we have positioned the "medical/welfare field" as a growth area and a local industry for the Tokyo Metropolitan area, to which we will provide multifaceted assistance not only through financing but also through support for mainstay operations, etc.

Proprietary benchmarks			
	FY2016 Second half	FY2017	FY2018
Number of consulting support deals with medical and nursing care businesses	27	88	82



<Leverage the special features of the Tokyo area to strengthen our functions and offer new value by building broadly based networks as well as unearthing new business areas>

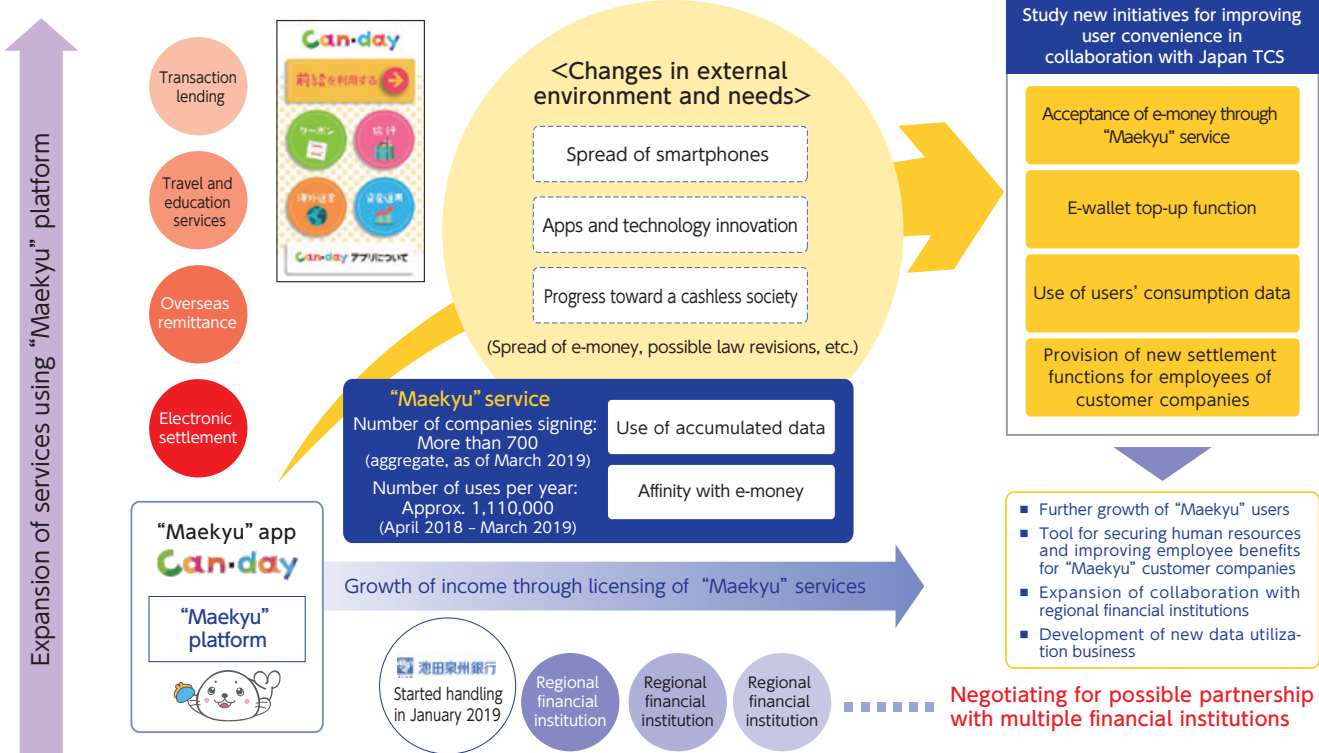
◆ "Maekyu" service

Maekyu is the banking industry's first service that enables salary payment at any time, allowing people to receive money before payday, within the limits of work done (a patent was received for the business model in June 2005). Against the backdrop of recent labor shortages, it has been well received by companies aiming to secure staff and improve retention ratios, and with the increase in the number of companies deploying the service, the number of transactions is also rising nationwide.

We also established Kiraboshi Tech, Inc., which develops various kinds of apps and provides new services with FinTech and venture companies, and in August 2018 released the "Can day" smartphone app for users of the "Maekyu" service.

Furthermore, we have granted a license for the use of the "Maekyu" service to The Senshu Ikeda Bank*, which began full-scale provision of the service in January 2019. Going forward, we will continue to actively pursue collaborations with regional banks, accelerating its deployment over a wide area.

*Kiraboshi Bank and The Senshu Ikeda Bank are both banks whose base is in major conurbations, namely the Tokyo and Osaka areas respectively, and whose goal is to contribute to the development and revitalization of economic society. With this in mind, on January 27, 2017, the two banks signed "an agreement on a Tokyo-Osaka partnership that "connects" the Tokyo and Osaka areas.



Employee's work style reform and Promotion of diversity



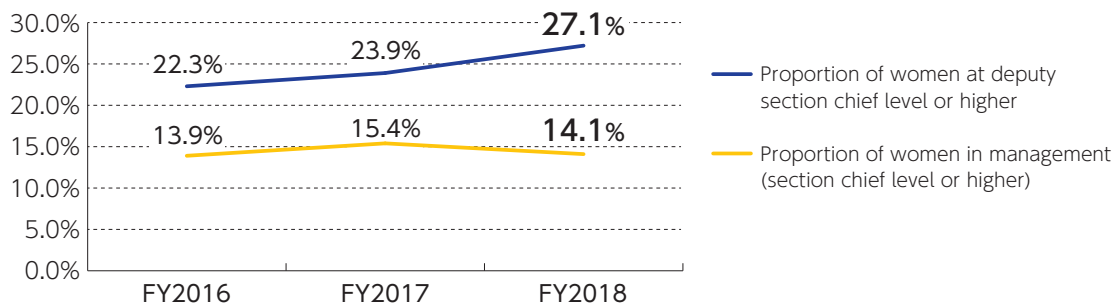
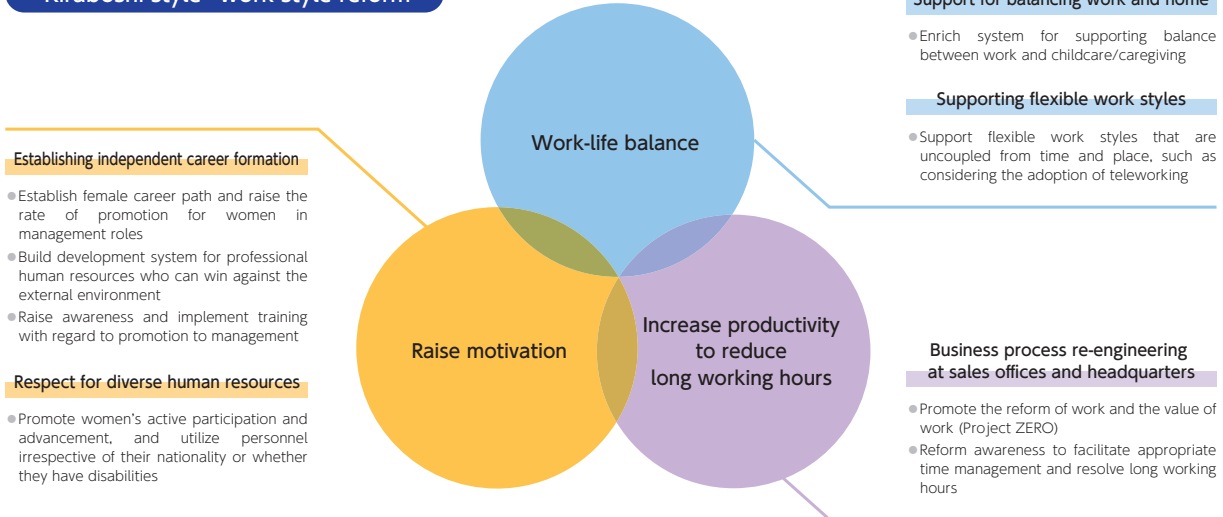
In addition to promoting health and productivity management by encouraging a work-life balance, the Group is taking steps that include supporting the contribution of women, and creating an environment in which all employees, irrespective of gender or age, can feel satisfaction in their work, thus facilitating the development of diverse human resources and the realization of diverse work styles.

Setting up of "Diversity Promotion Section"

At Kiraboshi Bank, in addition to setting up a "Diversity Promotion Section" in October 2018, "Project team for the promotion of work style reform" was also launched. Various other initiatives have also been implemented in preparation for realizing "Kiraboshi-style" work style reform, such as investigating measures to encourage both male and female employees to take childcare leave, and the hosting of the "Kiraboshi Women's Inclusion Network," the aims of which include promotion of women's active participation and advancement. In December 2018, in recognition of the quality of its initiatives related to the promotion of women's active participation and advancement, the Company was certified at the highest "Stage 3 level" of the "Eruboshi" by the Minister of Health, Labour and Welfare.



"Kiraboshi-style" work style reform



Organized a commemorative event

Participated in by employees and their families, and employees of Group companies



In order to achieve sustainable development for the Company and enhance shareholder value, as well as raise the transparency and objectivity of management, we are striving to assist in the development of local communities through strengthening structures associated with corporate governance and working to ensure compliance.

Information Disclosure Policy

Under our management philosophy, that is “to be a financial group for small and medium-sized enterprise customers and individual customers in the Tokyo metropolitan area that will contribute to the development of local communities through comprehensive financial services,” the Group is committed to making timely and appropriate disclosure and provision of information that is easy to understand, not only on financial information but also on non-financial information such as management strategies and issues and information on risks and governance, in an aim to win more trust and reputation from our customers, shareholders, and local communities, etc.

The Group has established the “Information Disclosure Policy” for the timely and appropriate disclosure and provision of information that is easy to understand to stakeholders, and strives to disclose information in a fair and equitable manner.

Holding briefing sessions for investors

The Group is engaged in IR activities such as holding briefing sessions for institutional investors and private investors so that stakeholders including our customers, local communities, shareholders understand the management status and other aspects of the Group.



Results briefing (held on June 6, 2019)

	Activities (timing in FY2018, etc.)
Japanese institutional investors and securities analysts	Business results briefing (June) and individual meetings (as necessary)
Individual shareholders and private investors	Results briefing for private investors (September, November, January, and February)

Establishment of Nomination/Remuneration Committee

To help enrich corporate governance, we have voluntarily established the “Nomination/Remuneration Committee” as an advisory body with the intent of securing objectivity and transparency regarding personnel matters and remuneration of Directors. The “Nomination/Remuneration Committee” consists of one Director of the Company and two Outside Directors of the Company and is chaired by an Outside Director.

Introduction of performance-based stock remuneration plan

Through the introduction of this plan, the Company will clarify the linkage between remuneration and the Company’s performance and share value, and ensure that Directors will share benefits and risks due to share price fluctuations with shareholders, thereby raising awareness of contributing to expand its performance and to improve corporate value on a medium to long-term basis.

Establishment of AML/CFT group

In October 2018, we established AML/CFT group within the Compliance Section of Risk Management Department of Kiraboshi Bank, Ltd. as part of our efforts to strengthen measures for anti-money laundering and combating the financing of terrorism.

Status of corporate governance



(From left in the back row)

Full-time Corporate Auditor	Director	Corporate Auditor (Outside Corporate Auditor)	Chairman	Corporate Auditor (Outside Corporate Auditor)	Director	Full-time Corporate Auditor
Mikio Makabe	Hidenori Tsunehisa	Nobuko Inaba	Takashi Sakamoto	Kayo Todo	Toru Narata	Satoru Nobeta

(From left in the front row)

Director (Outside Director)	Deputy President	President	Director (Outside Director)	Deputy President	Director (Outside Director)
Shoji Nishio	Yoshikazu Kitagawa	Keizo Ajioka	Yuki Takahashi	Hisanobu Watanabe	Ryuji Miura

Basic approaches to corporate governance

The Company regards corporate governance as one of the top priority management issues, and, with the goal of the realization of its management philosophy, has established the “Basic Policy on Corporate Governance” as follows.

Basic Policy on Corporate Governance

- The Board of Directors of the Company decides important matters such as management policies and strategies in accordance with applicable laws and regulations as well as the Regulations for the Board of Directors, and endeavors to put in place a system for supervising the execution of duties by Directors through such measures as receiving reports on the status of execution of business delegated to the Management Meeting and Directors and other important matters.
- The Company strives to ensure the appropriateness of management supervision and audit functions as well as a system for efficient business execution, by effectively utilizing the management supervisory function realized by the appointment of highly independent Outside Directors and Outside Corporate Auditors and the audit function performed by Corporate Auditors and the Board of Corporate Auditors, and by enhancing the effectiveness of corporate governance. As an organizational design for this purpose, the Company has adopted a company with Board of Corporate Auditors, and has voluntarily established the “Nomination/Remuneration Committee,” the majority of which consists of Outside Directors, striving to ensure the objectivity and transparency in Directors’ appointment and decisions about their remunerations.
- In order to put in place a system that ensures properness of business operations, the Board of Directors will resolve the “Basic Internal Control Policy” and endeavor to improve its effectiveness.
- In order to ensure the sound and appropriate business operations of each Group company, the Company endeavors to conduct suitable management of various risks as a whole group under appropriate group business management (governance).
- While striving to establish corporate ethics based on its social mission as a regional financial group, the Company endeavors to ensure the soundness and appropriateness of business operations, upholding its basic policy of fostering the corporate culture that emphasizes compliance and is accredited by shareholders and trusted by customers and society.
- The Company takes appropriate steps to ensure that shareholders’ rights are substantially secured, including putting in place an environment that enables shareholders to exercise their rights appropriately. The Company will also make efforts to disclose information in a prompt, accurate, and equitable manner in order to enable its stakeholders to accurately understand the current status of the Company for the purpose of achieving sustainable growth of the stakeholders and the Company.
- The Company has established three action guidelines as basic approaches to CSR, “contribution to the local economy,” “contribution to local communities,” and “initiatives for environmental problems,” and is committed to practicing CSR management and contributing to the formation of a sustainable local community. In order to contribute to the achievement of the SDGs advocated by the United Nations, the Company has established the “Tokyo Kiraboshi Financial Group SDG Declaration.” Under the main themes of “environmental protection,” “contribution to the local community,” “creation of shared value with the customer,” “employees’ work style reform and promotion of diversity,” and “dialogue with shareholders and investors,” the Company is committed to making contributions towards the realization of a sustainable society, the aim of SDGs, by understanding SDGs and acting for SDGs by each officer and employee.

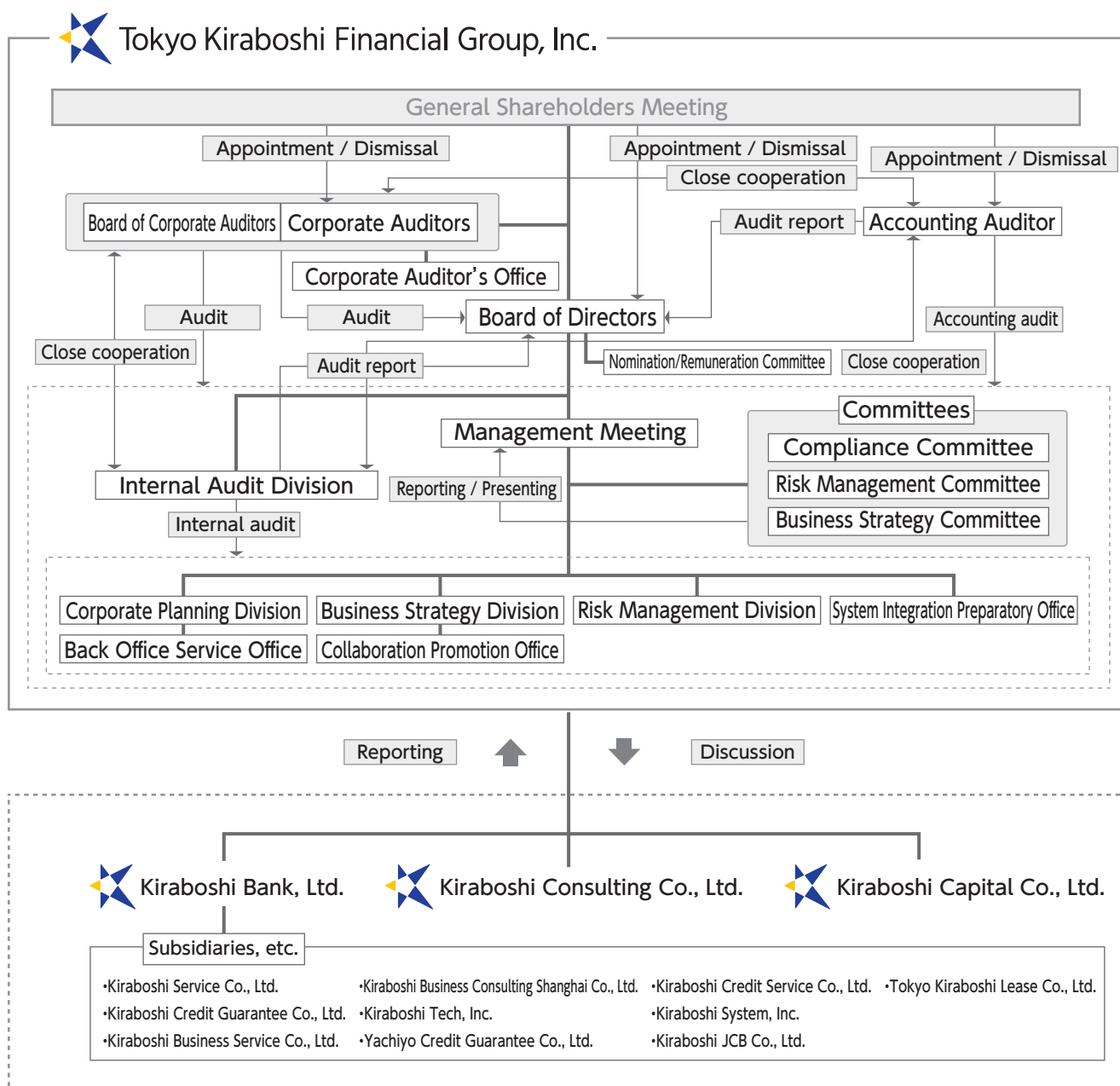
Outline of corporate governance system

The Company is a company with Board of Corporate Auditors, and the Board of Directors, Corporate Auditors, and the Board of Corporate Auditors supervise and audit the execution of duties by Directors. The Company believes that the appropriateness of management supervision and audit functions as well as a system for efficient business execution are ensured by effectively utilizing the management supervisory function realized by the appointment of highly independent Outside Directors and Outside Corporate Auditors and the audit function performed by Corporate Auditors and the Board of Corporate Auditors, and by enhancing the effectiveness of corporate governance.

The main business management organizations involved in the management decision-making, execution, and supervision of the Company are as follows.

Chart of corporate governance system

(as of July 1, 2019)



Status of corporate governance

Business execution and supervisory function

Directors and Board of Directors

The Board of Directors consists of nine Directors (including three Outside Directors). The Board of Directors has a system in place that enables the holding of one meeting in principle each month and other extraordinary meetings whenever the need arises in order to decide important matters such as management policies and strategies and to supervise the execution of duties by Directors through such measures as receiving reports on the status of business execution and other important matters.

Nomination/Remuneration Committee

The Company has voluntarily established the Nomination/Remuneration Committee as an advisory body with the intent of securing objectivity and transparency regarding personnel matters and remuneration of Directors. The Nomination/Remuneration Committee consists of four Directors or less (including at least two Outside Directors) appointed by the resolution of the Board of Directors, with its chairperson being appointed out of Outside Directors by the resolution of the Board of Directors.

Management Meeting

Under the Board of Directors, the Company has established the Management Meeting that consists of Directors, etc. of the Company and holds one meeting in principle each week and other extraordinary meetings whenever the need arises. The Management Meeting decides important matters other than those to be resolved by the Board of Directors and matters delegated by the Board of Directors, and receives reports on the status of business execution and other important matters.

Committees

The Company has set up the "Compliance Committee," the "Risk Management Committee," and the "Business Strategy Committee" as the subordinate organizations to the Management Meeting for each area of important management issues, and has established a system that increases expertise and agility. Each Committee meets regularly and at any time whenever the need arises in accordance with their respective rules.

Audit and supervisory functions

Corporate Auditors and Board of Corporate Auditors

The Company's Board of Corporate Auditors consists of two full-time Corporate Auditors and two part-time Corporate Auditors (Outside Corporate Auditors). The Board of Corporate Auditors strives to strengthen the audit structure by ensuring effective monitoring functions for Directors' decision-making and business execution. Each Corporate Auditor conducts audits on execution of duties by Directors, internal control, and other related matters by engaging in such activities as attending the Board of Directors' meetings and other important meetings, reviewing important approval and other documents, and conducting audits to each division of the Company and investigations on subsidiaries, in accordance with audit policies and plans established by the Board of Corporate Auditors. Corporate Auditors and the Board of Corporate Auditors are striving for effective audits by maintaining close cooperation with the internal audit departments, the Accounting Auditor, and other relevant parties, by exchanging opinions on priority audit issues in regular meetings with Representative Directors and other executives, or otherwise.

Internal audit

The Company's internal audits have been conducted by the Internal Audit Division, a division established independently from the rest of the Group, based on the "Medium-Term Internal Audit Plan" and the "Annual Internal Audit Plan" approved by the Board of Directors. Results of the audit have been reported regularly to the Board of Directors.

The Company has a system in place that enables the close cooperation between audits by Corporate Auditors and accounting audits through attending to regular meetings and exchanging opinions and information as appropriate. The system also ensures that internal control departments provide explanations, reports, and supplementary materials for audits by Corporate Auditors at regular meetings, while explanations and supplementary materials are provided to accounting audits as necessary.

Audit by Corporate Auditors

Corporate Auditors conduct audits on execution of duties by Directors, internal control, and other related matters by engaging in such activities as attending the Board of Directors' meetings and other important meetings, reviewing important approval and other documents, and conducting audits to each division of the Company and investigations on subsidiaries, in accordance with audit policies and plans established by the Board of Corporate Auditors. Corporate Auditors and the Board of Corporate Auditors are striving for effective audits by maintaining close cooperation with the internal audit departments, the Accounting Auditor, and other relevant parties, by exchanging opinions on priority audit issues in regular meetings with Representative Directors and other executives, or otherwise. The Company has elected one Substitute Corporate Auditor to prepare for the case where the number of Corporate Auditors falls below the number required by laws and regulations. In addition, two assistants to Corporate Auditors are assigned to support audits by Corporate Auditors.

Accounting audit

The Group's accounting audit is conducted by Ernst & Young ShinNihon LLC.

Outside Directors and Outside Corporate Auditors

Functions, roles, and appointment of Outside Directors and Outside Corporate Auditors

Outside Directors have a wealth of experience and advanced insights as a corporate manager, certified public accountant, or managing director of the Chamber of Commerce and Industry. They provide pertinent advice and recommendations from an independent standpoint regarding the overall management of the Company, and are responsible for strengthening the decision-making and supervisory functions about the management of the Company. Outside Corporate Auditors are responsible for strengthening the audit function on the execution of duties by Directors based on their specialized knowledge as an attorney or certified public accountant. The following "standards of independence regarding outside officers" is established for and govern the appointment of Outside Directors and Outside Corporate Auditors based on the functions and roles that outside officers should have in corporate governance.

Standards of independence regarding outside officers

The Company and its subsidiary banks (hereinafter the "Group") determine independence regarding candidates for Outside Director and Outside Corporate Auditor based on the following standards.

1. (1) The person is not an Executive Director, Executive Officer, or a manager or other employee (collectively hereinafter the "Business Executives, etc.") of the Group, and was not a Business Executor, etc., of the Group within 10 years prior to appointment.
However, for candidates for Outside Corporate Auditor, the requirement of not having been a Non-executive Director ^(Note 1) of the Group within 10 years prior to appointment is added.
- (2) For candidates for Outside Director that were Non-executive Directors or Corporate Auditors of the Group within 10 years prior to appointment, these persons must not have been a Business Executor, etc., of the Group within 10 years prior to appointment to that position.
For candidates for Outside Corporate Auditor that were Corporate Auditors of the Group within 10 years prior to appointment, these persons must not have been Business Executives, etc., or Non-executive Directors of the Group within 10 years prior to appointment to that position.
- (3) The party is not a spouse or a relative to within the second degree of an officer, etc. ^(Note 2), manager or other important employee (excluding those who are officers, etc.) of the Group.
2. The person is not a major shareholder ^(Note 3) of the Company or an officer, etc., or employee (excluding those who are officers, etc.) of a company of which the Group is a major shareholder.
3. (1) The person does not hold the Group as a major transaction partner ^(Note 4) and is not the parent company or a significant subsidiary, and if that person is a company, is not a Business Executor, etc., of said company and was not a Business Executor, etc., within the past three years.
- (2) The person is not a major transaction partner of the Group and is not the parent company or a significant subsidiary, and if that person is a company, is not a Business Executor, etc., of said company and was not a Business Executor, etc., within the past three years.
- (3) The person is not an employee, etc., of an organization that receives donations, etc., over a certain amount (an average of ¥10 million per annum for the past three years or 30% or more of average annual expenses of said organization, whichever is higher) from the Group.
4. The person is not an officer, etc., of a company, parent company of said company, or subsidiary of said company that receives officers, etc., from the Group.
5. The person is not the Accounting Auditor of the Group or an employee, etc., of said Accounting Auditor and was not responsible for the audit operations of the Group within the past three years as said employee, etc.
6. The person is an attorney, certified public accountant, or other consultant, etc., who has not received an average of ¥10 million or more per annum for the past three years aside from officer remuneration in cash or other property as profit from the Group. Additionally, the person is not an employee, etc., of an advisory firm such as a legal office, etc., that holds the Group as a major transaction partner (an advisory firm that received payment from the Group of 2% or more of its consolidated net sales on average over the past three fiscal years).
7. The person is not a person with which a constant, essential conflict of interest with general shareholders of the Company may arise for reasons other than those considered above.

(Note 1) A "Non-executive Director" refers to a Director that is not an Executive Director.

(Note 2) An "officer, etc.," refers to a Director (including an Outside Director), Corporate Auditor (including an Outside Corporate Auditor), Executive Officer, Counselor, and Advisor.

(Note 3) A "major shareholder" is a person or company, etc., that directly or indirectly possesses voting rights equal to 10% or more of total voting rights as of the end of the most recent fiscal year.

(Note 4) A "major transaction partner" is determined on the standard of 2% or more of annual consolidated net sales (annual consolidated ordinary revenue for the Company) as of the end of the most recent fiscal year.

Status of putting in place the internal control system

Under the Companies Act and the Regulation for Enforcement of the Companies Act, in order to put in place the "system that ensures properness of business operations" of the Company and Group companies, the Board of Directors of the Company has resolved the "Basic Internal Control Policy" as follows and endeavors to improve its effectiveness. We will continue to review and enhance the content as appropriate.

1. **System to ensure that Directors and employees execute their duties in compliance with laws and regulations and the Articles of Incorporation**
 - (1) The Company will establish the Basic Compliance Policy to ensure that officers and employees of the Company and Group companies comply with laws and regulations, the Articles of Incorporation, and social norms, and the proper and sound business operations. In addition, the Basic Compliance Regulations will be established as specific action guidelines for compliance.
 - (2) The Company will establish the Compliance Committee and the division supervising compliance to have comprehensive monitoring and management of the status of compliance by the Company and Group companies and to put in place a system for compliance.
 - (3) The Company will establish the Internal Audit Division that is independent of the departments to be audited, and the Internal Audit Division will regularly audit the status of business operations by the Company and Group companies and report the audit results to the Board of Directors.
 - (4) In accordance with the Whistleblowing Management Rules, the Company will set up an organization for consultation and receiving whistleblowing reports about violations of laws and regulations by officers and/or employees, handle the consultations and reports properly, and put in place a system to protect whistleblowers and relevant parties.

Status of corporate governance

- (5) The Company will establish the Customer Protection Management Policy and the Conflict of Interest Management Policy, put in place a system for the improved protection and convenience of customers of the Company and Group companies, and put in place a system for managing conflicts of interest to prevent undue harm to the customers' interest.
- (6) In accordance with the Basic Policy on Dealing with Antisocial Forces which is established as a basic policy for the elimination of any relationship with antisocial forces, the Company will put in place a system for eliminating relationships with antisocial forces that threaten the order and safety of civil society. The Company will also systematically respond to unreasonable demands, etc. from antisocial forces.
- (7) In accordance with the Insider Trading Prevention Management Rules, the Company will put in place a system to appropriately manage important undisclosed facts about transaction partners of the Company and the Group companies that are learned in the course of business.
2. **System for retaining and managing information on the execution of duties by Directors**

The Company will establish a structure for retaining and managing information related to the execution of duties by Directors for a considerable period of time. The Company will also prepare and retain the minutes of important meetings involving the Directors such as the General Shareholders Meetings and the Board of Directors' meetings in accordance with the Document Management Regulations.
3. **Regulations and other systems to the management of the risk of loss**
 - (1) The Company will establish the Group Basic Policy for Risk Management in order to establish the soundness in the management of the Company and the Group companies and to secure proper profits appropriate to various risks.
 - (2) In order to ensure the appropriateness and soundness of business operations of the Company and the Group companies, the Company will establish the Comprehensive Risk Management Regulations and conduct proper risk management corresponding to the type and extent of risks.
 - (3) The Company will establish the Risk Management Committee and the division supervising risk management to manage various risks in the Company and the Group companies and to put in place a system for controlling the risk of loss.
 - (4) The Company will establish a system in which the Internal Audit Division verifies the appropriateness and effectiveness of the risk management structure at the division supervising risk management, and strive to enrich and strengthen the risk management structure.
 - (5) In order to quickly restore business operations in the event of a crisis, the Company will establish the Basic Policy on Business Continuity and appropriately put in place the structure for crisis management.
4. **System to ensure that Directors execute their duties efficiently**
 - (1) The Company will set management targets, establish management plans, and conduct business management based on appropriate methods.
 - (2) The Company will establish the Regulations for the Board of Directors, manage the Board of Directors appropriately, and set up the Management Meeting, etc., and the Board of Directors will delegate the decisions on certain matters to the Management Meeting, etc. The Management Meeting, etc. will, in addition to making decisions on the delegated matters, discuss matters to be resolved by the Board of Directors beforehand in order to assist the Board of Directors in its decision-making.
 - (3) The Company will stipulate the rules for duties, authorities, and decision-making by formulating the Organization Regulations, the Rules for Division of Duties, and the Job Authority Rules, to ensure that Directors and all officers and employees execute their duties efficiently.
5. **System to ensure properness of business operations of the corporate group comprising the Company and the Group companies**
 - (1) Based on the management philosophy, the Company and the Group companies will share business strategies as a corporate group and conduct management on a group-wide basis. Regarding the management of the Group companies by the Company, the Company will establish the Group Business Management Regulations that stipulate basic rules for discussion and reporting on important matters such as management plans of subsidiaries, etc., and put in place a system to ensure the sound, appropriate, and efficient operation of the Group.
 - (2) The Company and the Group companies will put in place the internal control structure for financial reporting of the Company and the Group companies based on the Basic Policy for the Internal Control Over Financial Reporting, and ensure the appropriateness and credibility of financial reports.
- (3) The Company and the Group companies will take appropriate actions in accordance with laws and regulations regarding intra-group transactions, and will conduct appropriate management with an emphasis on ensuring the soundness of the Group's business operations, based on the Basic Policy for Intra-Group Transactions, Etc. and the Basic Policy for Intra-Group Business Alliance.
- (4) The Company will establish the Basic Policy on Related Party Transactions regarding transactions made between the parties stipulated in Article 8, paragraph 17 of the Regulation on Terminology, Forms, and Preparation Methods of Financial Statements such as the Company's officers, the Group companies (consolidated subsidiaries and equity method affiliates), and major shareholders (related party transactions), and will ensure the soundness and appropriateness of each company's business operations as well as the common interests of shareholders in accordance with laws and regulations.
- (5) The Internal Audit Division will conduct audits to ensure the proper business operations based on the Basic Policy on Internal Audits and provide necessary advice to optimize the operations.
- (6) The Company will put in place a system for immediately reporting to the Company's Directors when officers or employees of the Company or the Group companies discover material violations of laws and regulations or other important matters related to compliance within the Group companies. In addition, the Company will clearly state the standards for reporting to the Company by its subsidiaries and put in place a system for reporting the matters necessary for the management of the Group.
- (7) The Company will put in place a system in which no officers or employees who have reported in accordance with paragraph (6) above will be subject to disadvantageous treatment due to the reporting.
6. **Matters concerning the assignment of employees who assist duties of Corporate Auditors**

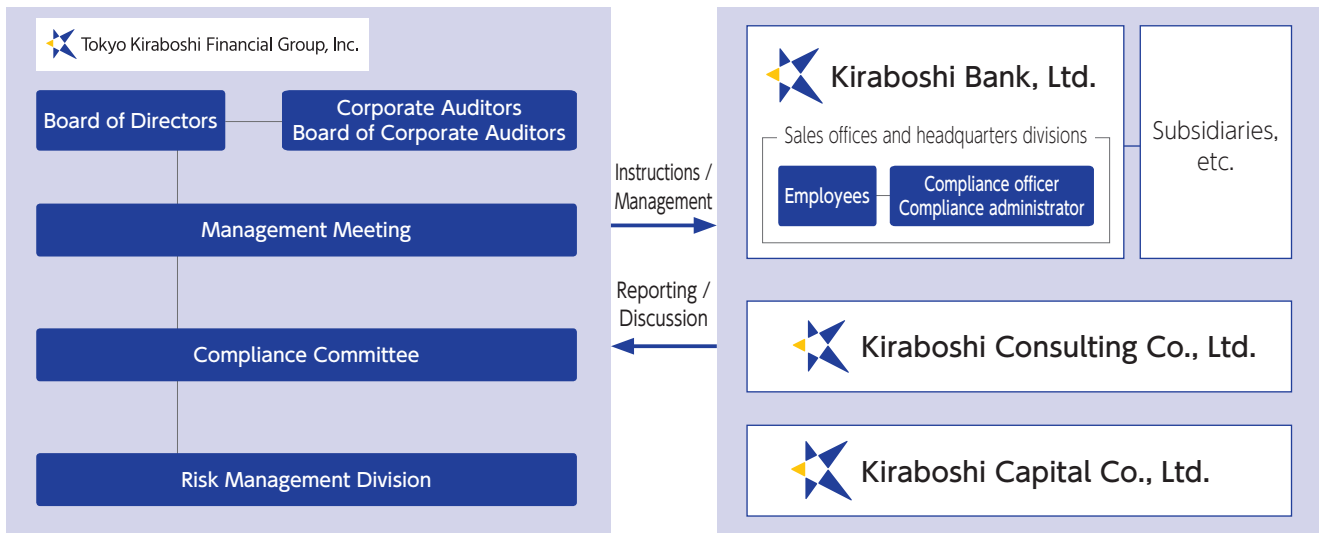
The Company will assign employees who assist duties of Corporate Auditors (hereinafter the "Assistants") to increase the efficiency and effectiveness of their duties.
7. **Matters concerning the independence of the Assistants mentioned in item 6 from Directors**
 - (1) Appointment, transfer, performance appraisal, and disciplinary action of the Assistants will require the prior consent of the Corporate Auditors.
 - (2) The Company will put in place a system that prevents the Assistants from being in charge of execution of business in addition to the assisting duties.
8. **System for reporting by Directors and employees to Corporate Auditors and other systems involving reporting to Corporate Auditors**
 - (1) When Directors and employees of the Company and the Group companies discover that there is a risk of significant damage to the Company and the Group companies, they will report the fact to Corporate Auditors in accordance with the Regulations on Reporting to Corporate Auditors. In addition to matters stipulated in laws and regulations and rules, Corporate Auditors may request reports from Directors, employees in internal audit departments, and other persons if necessary. No person who has reported to Corporate Auditors, etc. will be subject to disadvantageous treatment due to the reporting.
 - (2) The Company will put in place a system for its internal audit departments to report to Corporate Auditors the results of internal audits on the Company and the Group companies.
9. **Other systems to ensure that Corporate Auditors perform audits effectively**
 - (1) The Company will put in place a system in which audits are effectively conducted through the cooperation including the exchange of opinions between Corporate Auditors and the Accounting Auditor, Representative Directors, risk management departments, audit departments, and in-house divisions responsible for internal control functions.
 - (2) The Company will promptly prepay or reimburse such expenses, or process such obligations that arise with regard to execution of duties by Corporate Auditors if requested by them. The Company will bear the costs for obtaining advice from external experts if the Corporate Auditors consider it necessary.

Compliance system

Status of putting in place the compliance system

The Group regards compliance as one of the top priority management issues, strives to establish corporate ethics based on its social mission as a regional financial group, and endeavors to ensure the soundness and appropriateness of business operations, upholding its basic policy of fostering the corporate culture that emphasizes compliance and is trusted by shareholders, customers, and society. The Group also has established the Compliance Committee to propose measures for the compliance-related matters of the Group and to strengthen the compliance function. In addition, the Group has assigned the officer in charge of the Risk Management Division as the chief compliance officer, established the Risk Management Division as the division supervising compliance-related matters, and put in place the compliance system.

● Chart of compliance system



Basic Compliance Policy

The Group regards compliance as one of the top priority management issues, strives to establish corporate ethics based on its social mission as a regional financial group, and has established its basic policy to foster the corporate culture that emphasizes compliance and is accredited by shareholders and trusted by customers and society. The Group stipulates the following "Action Principles" to implement the basic policy.

1. Social responsibility and public mission of bank
We will recognize the importance of our social responsibility and public mission at all times and strive to win the unwavering trust through sound business operations.
2. Customer-first principle
We will consider customers first, satisfy customer needs, leverage our creativity and ingenuity, and provide high-quality financial services. We will live up to customers' trust and always pursue with a sincere attitude what customers expect us to do.
3. Strict compliance with laws, regulations, and rules
We will strictly comply with all laws, regulations, and rules and carry out sincere and fair corporate activities that do not violate social norms.
4. Developing together with local communities
We will contribute to the economic and cultural development of prosperous and vibrant local communities through our financial services.
5. Respect for human rights of employees, etc.
We will respect human rights and individuality of employees and ensure a safe and comfortable working environment.
6. Elimination of relationship with antisocial forces
We firmly confront antisocial forces that threaten the order and safety of civil society and ensure to eliminate any relationship with them.

Status of putting in place a system for eliminating antisocial forces

In order to eliminate any relationship with antisocial forces, the Company has established the "Basic Policy on Dealing with Antisocial Forces" and the "Basic Rules on Dealing with Antisocial Forces" and puts in place the system for this purpose. The Risk Management Division has the centralized function to control information on antisocial forces, and the Company and the Group companies strive to collect and share information on antisocial forces.

Compliance system

Basic Policy on Dealing with Antisocial Forces

The Group eliminates and will eliminate any relationship whatsoever with antisocial forces that threaten the order and safety of civil society, will comply with the following basic policy, and ensure sound and responsible business operations.

1. Deal with antisocial forces that threaten the order and safety of civil society as an organization and maintain a firm attitude against them.
2. Endeavor to strengthen close cooperation with the police and other external specialized agencies in preparation for unreasonable demands by antisocial forces even under normal circumstances.
3. Eliminate any relationship whatsoever including transactions with antisocial forces.
4. Reject firmly any unreasonable demands from antisocial forces, including taking civil or criminal actions.
5. Reject firmly any requests for providing funds or benefits to antisocial forces.

Group Basic Policy for Protection of Personal Information

The Group recognizes that it is its social responsibility to handle personal information of customers in a proper and strict manner. It has established the following basic policy and will do everything possible to protect personal information by complying with the policy.

1. Compliance with relevant laws and regulations
The Group will comply with personal information protection-related laws and regulations and other norms with respect to the protection of customers' personal information.
2. Proper acquisition of personal information
The Group will acquire customers' personal information in a lawful and fair manner to the extent necessary for business.
3. Purpose of use
The Group will notify or announce the purpose of using personal information and will use it only within the scope of that purpose unless otherwise stipulated in laws and regulations, and will not use it for any other purpose.
4. Contracting-out
When contracting out the handling of personal information, the Group will appropriately supervise the contractor to ensure that the personal information of customers will be safely managed.
5. Provision to third parties
The Group will not provide personal information to any third party without the consent of the person who provided it or unless stipulated in laws and regulations.
6. Responding to customers' inquiry, etc.
The Group will establish the procedures for disclosure, correction, and deletion of personal data, and respond sincerely to questions, opinions, and complaints regarding the handling of personal information, and inquiries regarding its contents and corrections.
7. Security control measures
When controlling personal information, the Group will take appropriate security control measures to prevent loss, falsification, and leakage, and put in place a responsibility system necessary for protecting personal information.
8. Continuous improvement
The Group will continuously review and strive to improve the management system and initiatives to protect personal information. In addition, the Group will educate all officers and employees to ensure that they understand the importance of protecting personal information and handle personal information appropriately.

Financial ADR system

Kiraboshi Bank, Ltd. of the Group has established a specialized department for various consultations and complaints from customers, and contracted with the "Japanese Bankers Association Consultation Office," a designated dispute resolution body, to facilitate the quick and flexible solution of issues.

The designated dispute resolution body which Kiraboshi Bank, Ltd. has contracted with

Japanese Bankers Association

Contact: Japanese Bankers Association
Consultation Office
Telephone number: 0570-017109
or 03-5252-3772

Whistleblowing system

The Group has established the "Hotline System" as a mechanism for responding properly to an employee, dispatched worker, part-time worker, or other staff who initiates whistleblowing or wishes to have a consultation about compliance issues (including harassment).

Kiraboshi Bank, Ltd. has established a contact point for whistleblowing in the Compliance Section of Risk Management Department and in the law firm which its legal counsel works for.

This whistleblowing system is strictly stipulated in the Group's internal regulations as to the confidential treatment of a whistleblower's identity and the prohibition of disadvantageous treatment of a whistleblower.

Risk management system

Status of putting in place the risk management system

The Group considers the risk management as one of the top priority management issues and, in order to ensure the sound and appropriate business operations of each Group company, endeavors to conduct suitable management of various risks as a whole group under appropriate group business management (governance). The Group has established the Risk Management Committee that discusses the establishment, revision, and abolishment of the Risk Management Regulations or other regulations and considers formulation of policies for the development and establishment of the Group's risk management system. In addition, the Group has established the Risk Management Division as the division supervising the risk management in the Group and put in place the risk management system.

Group Basic Policy for Risk Management

1. Considering the risk management as the top priority issue in the management of the Group, the Group will recognize the importance of risk management of the entire Group, including management of risks specific to the group system such as outline of the characteristics of various risks and the spread of risks. The Group will conduct suitable management by establishing the management system for each type of risk.
2. The Group will manage subsidiaries so that the appropriate risk management is performed by them from the viewpoint of ensuring soundness.

Integrated risk management

Integrated risk management within the Group means to manage the risk in the Group as a whole, by integrating the management of various risks held by the Group companies, comprehensively identifying risks specific to the group system that individual Group companies alone cannot deal with, such as the spread of risk within the Group, and comparing the risk with the Group companies' financial capability (net assets).

The Group estimates the maximum potential loss involving credit risk, market risk, and operational risk based on the measured amount of risk. Then, in order to use limited capital effectively, the Group allocates risk capital by using core capital as allocation source and compares the capital with the actual amount of risk to confirm that the Group has not taken excessive risks in comparison with its financial capabilities, thereby maintaining and ensuring the soundness of management.

Credit risk management

Credit risk means the risk of incurring losses due to decreased or lost asset value caused by a deterioration in the financial condition of the parties to which the credit has been granted.

The Group strives to maintain the soundness of its credit portfolio by avoiding concentration risk through such measure as keeping the percentage of credit in the total amount of credit below a certain level for large concentration risk that an excessive amount of credit is made available to a specific party or for industry concentration risk that credit is concentrated to a specific industry.

Market risk management

Market risk means the risk of incurring losses due to fluctuations in the value of assets and liabilities and in the amount of generated revenue as a result of fluctuations in various market risk factors such as interest rates, stock prices, and exchange rates. It is roughly divided into interest rate risk, price fluctuation risk, and exchange rate risk.

The Group controls the amount of market risk to avoid becoming excessive through such measures as setting limits for holdings and losses, monitoring the status of compliance, measuring the amount of risk such as VaR, and comparing it with the allocated risk capital.

In addition, the Group evaluates market risk comprehensively using the stress scenarios that reflect events that could have a significant impact on the Group or other means.

Liquidity risk management

Liquidity risk is the risk of incurring losses caused by difficulty in securing the necessary funds or being forced to raise funds at a significantly higher interest rate than usual due to a mismatch between investment and funding periods or an unexpected outflow of funds (cash flow risk), and the risk of incurring losses caused by inability to trade in the market or being forced to trade at a significantly unfavorable price than usual due to market turmoil or other factor (market liquidity risk).

The Group takes every possible measure to manage liquidity risk through such measures as appropriately managing the status of fund investment and procurement, maintaining stable funding, and holding above a certain amount of assets that can be liquidated in a short period of time as current assets.

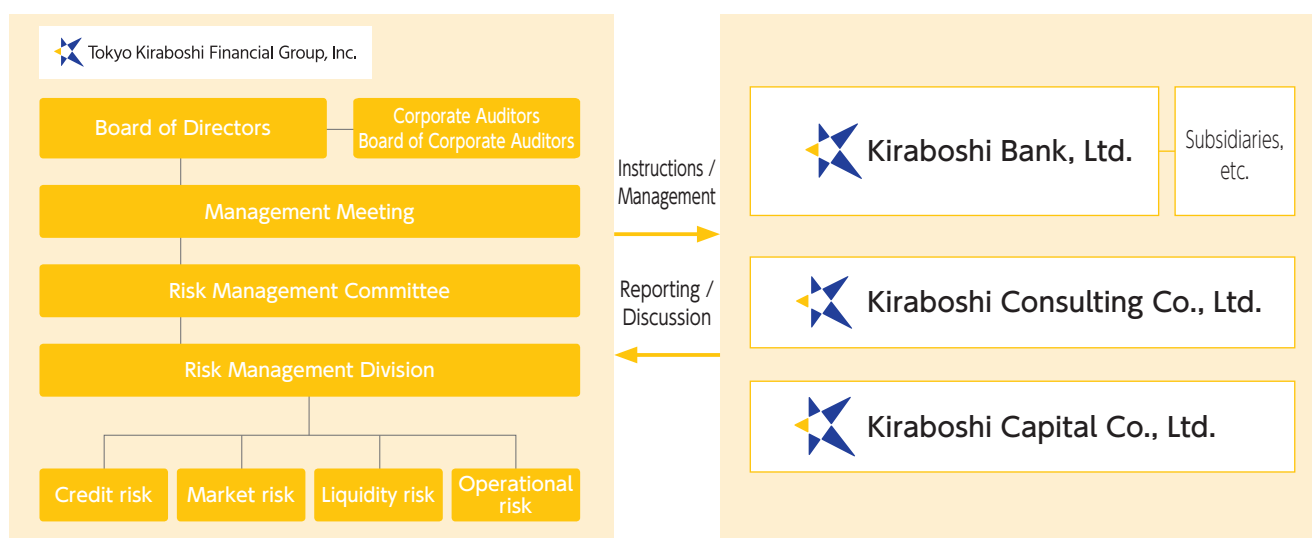
Risk management system

Operational risk management

Operational risk means a wide range of risks related to business operations in general, including the risk of incurring losses caused by business process, activities of officers or employees, improper or non-functional systems, or external events.

The Group categorizes the operational risk according to its characteristics into administrative risk, system risk, legal risk, or other risk. The Group has designated divisions responsible for each risk and an integrated management division, and puts in place a risk management system that covers business operations in general.

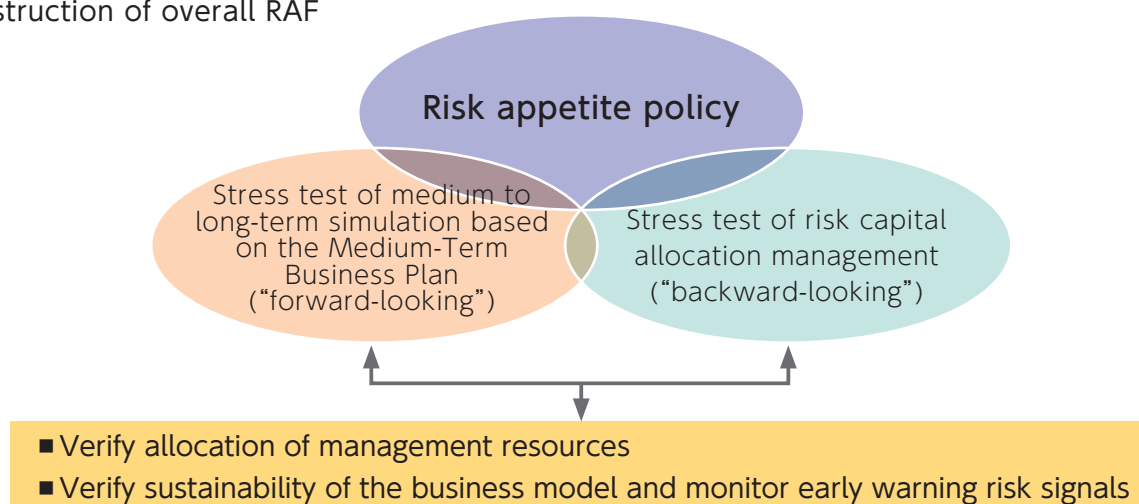
● Chart of risk management system



| Trial implementation of Risk Appetite Framework

The Risk Appetite Framework (RAF) is a framework for clarifying the risk appetite for the sake of achieving business strategies and financial plan, thereby conducting business management and risk management. Introduction of RAF improves the transparency of the management plans, enables a company to seek more profit opportunities and conduct business management while controlling risks. The Group has started a trial implementation of RAF for the purpose of achieving sustainable growth with a good balance of income, risk, and capital.

● Construction of overall RAF



| Initiatives for strengthening cyber security management

Considering the diversifying threats of cyber-attacks as one of the risks, we are stepping up efforts on cyber security measures. We have established a specialized organization for cyber security, and strengthened the monitoring structure to prevent damage. We also strive to raise awareness of employees by regularly delivering emails that mimic targeted attack emails or other means.

Consolidated Financial Statements

Tokyo Kiraboshi Financial Group, Inc. and its Consolidated Subsidiaries
March 31, 2019 and 2018

Consolidated Balance Sheets

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Assets			
Cash and due from banks.....	¥ 402,718	¥ 377,636	\$ 3,628,416
Call loans and bills bought.....	2,308	1,264	20,794
Monetary claims bought.....	59,326	55,650	534,516
Trading account securities.....	973	707	8,766
Securities.....	1,095,059	1,208,629	9,866,285
Loans and bills discounted.....	3,696,398	3,676,146	33,303,883
Foreign exchanges.....	5,984	13,556	53,914
Other assets.....	47,525	84,062	428,191
Tangible fixed assets.....	60,266	59,627	542,985
Buildings, net.....	19,696	19,600	177,457
Land.....	35,451	34,216	319,407
Leased assets, net.....	1,538	1,780	13,857
Construction in progress.....	226	1,240	2,036
Other tangible fixed assets.....	3,354	2,789	30,218
Intangible fixed assets.....	3,097	2,365	27,903
Software.....	2,054	1,421	18,506
Leased assets.....	116	94	1,045
Other intangible fixed assets.....	926	848	8,343
Retirement benefit asset.....	14,128	18,391	127,290
Deferred tax assets.....	5,940	5,184	53,518
Customers' liabilities for acceptances and guarantees.....	5,596	5,677	50,418
Allowance for loan losses.....	(26,112)	(26,195)	(235,264)
Total assets	¥ 5,373,212	¥ 5,482,704	\$ 48,411,676
Liabilities			
Deposits.....	¥ 4,527,089	¥ 4,652,109	\$ 40,788,260
Negotiable certificates of deposit.....	16,100	9,540	145,058
Call money and bills sold.....	113,329	58,937	1,021,073
Payables under securities lending transactions.....	344,918	357,265	3,107,649
Borrowed money.....	43,566	73,558	392,521
Foreign exchanges.....	533	224	8
Borrowed money from trust account.....	245	53	2,207
Other liabilities.....	24,561	25,167	221,290
Provision for bonuses.....	1,701	2,140	15,325
Provision for bonuses for directors (and other officers).....	158	—	1,423
Provision for share-based compensation.....	82	—	738
Retirement benefit liability.....	65	2,845	585
Provision for retirement benefits for directors (and other officers).....	20	67	180
Provision for point card certificates.....	39	58	351
Provision for loss on interest repayment.....	8	8	72
Provision for reimbursement of deposits.....	1,351	1,185	12,172
Provision for loss on cancellation of system contracts.....	—	200	—
Provision for loss on transfer of business.....	—	194	—
Provision for contingent loss.....	656	612	5910
Deferred tax liabilities.....	61	1,837	549
Acceptances and guarantees.....	5,596	5,677	50,418
Total liabilities	¥ 5,080,087	¥ 5,191,683	\$ 45,770,673
Net assets			
Capital stock.....	¥ 27,500	¥ 27,500	\$ 247,770
Capital surplus.....	150,473	150,576	1,355,734
Retained earnings.....	109,053	106,206	982,547
Treasury shares.....	(804)	(625)	(7,243)
Total shareholders' equity.....	286,223	283,657	2,578,817
Valuation difference on available-for-sale securities.....	7,923	6,075	71,384
Revaluation reserve for land.....	(242)	(242)	(2,180)
Foreign currency translation adjustment.....	8	10	72
Remeasurements of defined benefit plans.....	(1,250)	(1,146)	(11,262)
Total accumulated other comprehensive income.....	6,440	6,989	58,023
Share acquisition rights.....	56	101	504
Non-controlling interests.....	404	271	3,639
Total net assets.....	293,124	291,020	2,640,994
Total liabilities and net assets.....	¥ 5,373,212	¥ 5,482,704	\$ 48,411,676

Consolidated Income Statements and Consolidated Statements of Comprehensive Income

Consolidated Income Statements

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Ordinary income	¥ 78,777	¥ 82,616	\$ 709,766
Interest income.....	58,497	57,411	527,047
Interest on loans and discounts.....	43,079	43,992	388,134
Interest and dividends on securities.....	14,121	12,135	127,227
Interest on call loans and bills bought.....	36	36	324
Interest on receivables under securities borrowing transactions.....	—	0	—
Interest on deposits with banks.....	300	293	2,702
Other interest income.....	960	953	8,649
Trust fees.....	107	56	964
Fees and commissions.....	16,585	17,582	149,427
Other ordinary income.....	872	3,226	7,856
Other income.....	2,715	4,338	24,461
Recoveries of written off claims.....	91	259	819
Other.....	2,623	4,079	23,632
Ordinary expenses	75,297	77,888	678,412
Interest expenses.....	3,522	3,386	31,732
Interest on deposits.....	1,192	1,645	10,739
Interest on negotiable certificates of deposit.....	2	2	18
Interest on call money and bills sold.....	817	448	7,361
Interest on payables under securities lending transactions.....	1,340	1,140	12,073
Interest on borrowings and rediscounts.....	88	88	792
Other interest expenses.....	81	61	729
Fees and commissions payments.....	3,286	3,473	29,606
Other ordinary expenses.....	1,200	2,935	10,811
General and administrative expenses.....	57,502	61,235	518,082
Other expenses.....	9,785	6,857	88,161
Provision of allowance for loan losses.....	3,732	1,480	33,624
Other.....	6,053	5,377	54,536
Ordinary profit	3,480	4,727	31,354
Extraordinary income	0	647	0
Gain on disposal of non-current assets.....	0	647	0
Extraordinary losses	111	639	1,000
Loss on disposal of non-current assets.....	111	444	1,000
Provision for loss on transfer of business.....	—	194	—
Profit before income taxes	3,368	4,735	30,345
Income taxes - current	1,079	1,107	9,721
Income taxes - deferred	(2,655)	(61)	(23,921)
Total income taxes	(1,575)	1,045	(14,190)
Profit	4,944	3,689	44,544
Profit attributable to non-controlling interests.....	30	12	270
Profit attributable to owners of parent	¥ 4,914	¥ 3,677	\$ 44,274

Consolidated Statements of Comprehensive Income

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Profit	¥ 4,944	¥ 3,689	\$ 44,544
Other comprehensive income	(535)	6,250	(4,820)
Valuation difference on available-for-sale securities.....	2,084	2,852	18,776
Revaluation reserve for land.....	—	(32)	—
Foreign currency translation adjustment.....	(1)	2	(9)
Remeasurements of defined benefit plans, net of tax.....	(2,396)	3,362	(21,587)
Share of other comprehensive income of entities accounted for using equity method.....	(222)	66	(2,000)
Comprehensive income	4,408	9,940	39,715
Comprehensive income attributable to non-controlling interests.....	4,364	9,918	39,318
Comprehensive income attributable to owners of parent	¥ 43	¥ 22	\$ 387

U.S. dollar amounts are the yen equivalent, calculated for convenience only, at the rate of ¥110.99 = U.S. \$1.

Consolidated Financial Statements

Consolidated Statements of Changes in Net Assets

	Millions of Yen														
	Shareholders' equity					Accumulated other comprehensive income							Share acquisition rights	Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income					
Balance at beginning of current period	27,500	150,576	106,206	(625)	283,657	6,075	(242)	10	1,146	6,989	101	271	291,020		
Changes of items during period															
Purchase of shares of consolidated subsidiaries		(1)			(1)								(1)		
Dividends of surplus			(2,066)		(2,066)								(2,066)		
Profit attributable to owners of parent			4,914		4,914								4,914		
Purchase of treasury shares				(231)	(231)								(231)		
Disposal of treasury shares		(7)		52	45								45		
Change in equity of subsidiaries		(93)			(93)								(93)		
Net changes of items other than shareholders' equity						1,848	—	(1)	(2,396)	(549)	(45)	133	(461)		
Total changes of items during period	—	(102)	2,847	(178)	2,566	1,848	—	(1)	(2,396)	(549)	(45)	133	2,104		
Balance at end of current period	27,500	150,473	109,053	(804)	286,223	7,923	(242)	8	(1,250)	6,440	56	404	293,124		

	Millions of Yen														
	Shareholders' equity					Accumulated other comprehensive income							Share acquisition rights	Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income					
Balance at beginning of current period	27,500	150,733	104,574	(632)	282,175	3,166	(209)	8	(2,216)	748	95	337	283,357		
Changes of items during period															
Purchase of shares of consolidated subsidiaries		7			7								7		
Dividends of surplus			(2,078)		(2,078)								(2,078)		
Profit attributable to owners of parent			3,677		3,677								3,677		
Purchase of treasury shares				(38)	(38)								(38)		
Disposal of treasury shares		(5)		44	38								38		
Change in equity of subsidiaries		(158)			(158)								(158)		
Reversal of revaluation reserve for land			32		32								32		
Net changes of items other than shareholders' equity						2,909	(32)	2	3,362	6,240	5	(65)	6,181		
Total changes of items during period	—	(157)	1,631	6	1,481	2,909	(32)	2	3,362	6,240	5	(65)	7,662		
Balance at end of current period	27,500	150,576	106,206	(625)	283,657	6,075	(242)	10	1,146	6,989	101	271	291,020		

	Thousands of U.S. Dollars														
	Shareholders' equity					Accumulated other comprehensive income							Share acquisition rights	Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income					
Balance at beginning of current period	247,770	1,356,662	956,897	(5,631)	2,555,698	54,734	(2,180)	90	10,325	62,969	909	2,441	2,622,038		
Changes of items during period															
Purchase of shares of consolidated subsidiaries		(9)			(9)								(9)		
Dividends of surplus			(18,614)		(18,614)								(18,614)		
Profit attributable to owners of parent			44,274		44,274								44,274		
Purchase of treasury shares				(2,081)	(2,081)								(2,081)		
Disposal of treasury shares		(63)		468	405								405		
Change in equity of subsidiaries		(837)			(837)								(837)		
Net changes of items other than shareholders' equity						16,650	—	(9)	(21,587)	(4,946)	(405)	1,198	(4,153)		
Total changes of items during period	—	(919)	25,650	(1,603)	23,119	16,650	—	(9)	(21,587)	(4,946)	(405)	1,198	18,956		
Balance at end of current period	247,770	1,355,734	982,547	(7,243)	2,578,817	71,384	(2,180)	72	(11,262)	58,023	504	3,639	2,640,994		

Consolidated Statements of Cash Flows

	Millions of Yen		Thousands of U.S. Dollars	
	2019	2018	2019	2018
Cash flows from operating activities				
Profit before income taxes.....	¥ 3,368	¥ 4,735	\$ 30,345	
Depreciation.....	4,787	3,254	43,130	
Retirement benefit expenses.....	1,240	1,008	11,172	
Share of loss (profit) of entities accounted for using equity method.....	39	(35)	351	
Increase (decrease) in allowance for loan losses.....	(83)	(3,449)	(747)	
Increase (decrease) in provision for bonuses.....	(438)	(72)	(3,946)	
Increase (decrease) in provision for bonuses for directors (and other officers).....	158	—	1,423	
Increase (decrease) in provision for share-based compensation.....	82	—	738	
Decrease (increase) in retirement benefit asset.....	4,263	(4,265)	38,408	
Increase (decrease) in retirement benefit liability.....	(2,780)	(1,607)	(25,047)	
Increase (decrease) in provision for retirement benefits for directors (and other officers).....	(46)	(42)	(414)	
Increase (decrease) in provision for point card certificates.....	(19)	1	(171)	
Increase (decrease) in provision for loss on interest repayment.....	0	(2)	0	
Increase (decrease) in provision for reimbursement of deposits.....	165	175	1,486	
Increase (decrease) in provision for loss on cancellation of system contracts.....	(200)	—	(1,801)	
Increase (decrease) in provision for loss on transfer of business.....	(194)	194	(1,747)	
Increase (decrease) in provision for contingent loss.....	43	(63)	387	
Gain on fund management.....	(58,497)	(57,411)	(527,047)	
Financing expenses.....	3,522	3,386	31,732	
Loss (gain) related to securities.....	(1,194)	(1,206)	(10,757)	
Foreign exchange losses (gains).....	(6,098)	9,433	(54,941)	
Loss (gain) on disposal of non-current assets.....	111	(202)	1,000	
Net decrease (increase) in trading account securities.....	(266)	87	(2,396)	
Net decrease (increase) in loans and bills discounted.....	(20,252)	(54,773)	(182,466)	
Net increase (decrease) in deposit.....	(125,019)	(65,452)	(1,126,398)	
Net increase (decrease) in negotiable certificates of deposit.....	6,560	(11,800)	59,104	
Net increase (decrease) in borrowed money (excluding subordinated borrowings).....	(29,991)	(29,858)	(270,213)	
Net decrease (increase) in deposit (excluding deposit paid to Bank of Japan).....	1,481	9,170	13,343	
Net decrease (increase) in call loans.....	(4,719)	(7,203)	(42,517)	
Net increase (decrease) in call money.....	54,392	18,230	490,062	
Net increase (decrease) in payables under securities lending transactions.....	(12,346)	(4,044)	(111,235)	
Net decrease (increase) in foreign exchanges - assets.....	7,572	(5,972)	68,222	
Net increase (decrease) in foreign exchanges - liabilities.....	309	(711)	2,784	
Net increase (decrease) in borrowed money from trust account.....	191	53	1,720	
Proceeds from fund management.....	58,936	57,753	531,002	
Payments for finance.....	(3,979)	(3,413)	(35,850)	
Other, net.....	11,897	(16,139)	107,189	
Subtotal.....	(107,004)	(160,241)	(964,086)	
Income taxes paid.....	(450)	(1,669)	(4,054)	
Income taxes refund.....	867	379	7,811	
Net cash provided by (used in) operating activities.....	(106,587)	(161,531)	(960,329)	
Cash flows from investing activities				
Purchase of securities.....	(219,130)	(473,425)	(1,974,322)	
Proceeds from sales of securities.....	147,193	322,075	1,326,182	
Proceeds from redemption of securities.....	213,765	192,296	1,925,984	
Purchase of tangible fixed assets.....	(3,905)	(5,809)	(35,183)	
Payments for retirement of property, plant and equipment.....	(815)	(118)	(7,343)	
Proceeds from sales of tangible fixed assets.....	0	1,199	0	
Purchase of intangible assets.....	(1,495)	(1,019)	(13,469)	
Proceeds from sale of businesses.....	307	—	2,766	
Net cash provided by (used in) investing activities.....	135,919	35,197	1,224,605	
Cash flows from financing activities				
Cash dividends paid.....	(2,067)	(2,083)	(18,623)	
Dividends paid to non-controlling interests.....	(1)	(35)	(9)	
Purchase of treasury shares.....	(231)	(38)	(2,081)	
Proceeds from sales of treasury shares.....	0	2	0	
Proceeds from exercise of share options.....	0	0	0	
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation.....	(4)	(213)	(36)	
Repayments of lease obligations.....	(469)	(379)	(4,225)	
Net cash provided by (used in) financing activities.....	(2,774)	(2,747)	(24,993)	
Effect of exchange rate change on cash and cash equivalents.....	5	1	45	
Net increase (decrease) in cash and cash equivalents.....	26,562	(129,078)	239,318	
Cash and cash equivalents at beginning of period.....	375,365	504,444	3,381,971	
Cash and cash equivalents at end of period.....	¥ 401,928	¥ 375,365	\$ 3,621,299	

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