

## Corporate Governance

### Basic Policy

At Juroku Bank, we believe that retaining the trust of our stakeholders by conducting all of our activities in a sound manner is vital to our role as a financial institution. Therefore, we place the highest priority on building a solid organizational structure and establishing systems that continually reinforce corporate governance.

In association with the entry into effect of the Companies Act, we established a Basic Policy related to the Establishment of an Internal Control System at a meeting of the Board of Directors held on May 24, 2006. Since that time, we have revised this basic policy as necessary and in a timely manner, and have endeavored to develop and continuously refine the system to ensure the appropriate execution of business at the Bank and the corporate group comprising the Bank and its subsidiaries. Under this basic policy, we will pursue initiatives to enhance corporate governance.

### Progress Thus Far

The Board of Directors comprises nine members including three Outside Directors (as of June 18, 2021) and it is held at least once a month, in principle, to deliberate and decide matters stipulated in laws and regulations and important management issues, and it also monitors directors' conduct of business operations by having each director report his/her own execution of duties at least once every three months, pursuant to Article 363, Paragraph 2 of the Companies Act. Additionally, in order to further ensure the transparency and fairness of the Board of Directors' decision-making activities, a Management Advisory Council has been established as an advisory body to the Board of Directors. The Council is chaired by an Outside Director, and a majority of its members are external figures.

The Bank has adopted the executive officer system and ensures that executive officers appointed by the Board of Directors responsibly execute the business operations of the sections in their charge. The adoption of the executive officer system allows the Board of Directors to take on the functions of management supervision in a more effective manner, while also enabling quick decision making by the management team. In terms of important matters affecting the daily conduct of business operations, a Management Council, comprising the Chairman and President, deputy president and director and managing executive officers, has been established to enable quick and bold decision making.

Furthermore, an Operational Audit Committee has been established to enhance the supervisory functions of the Board of Directors on the execution of business operations, thereby further enhancing the corporate governance system.

The Audit & Supervisory Board comprises four Audit & Supervisory Board Members, including two Outside Audit & Supervisory Board Members and two Standing Audit & Supervisory Board Members (as of June 18, 2021). The Audit &

Supervisory Board is held at least once a month, in principle. To support the Audit & Supervisory Board Members, we have established the Audit & Supervisory Board Members' Office, which monitors the execution of business operations objectively and ensures appropriate auditing functions.

With regard to internal controls, the Internal Audit Division conducts internal audits, and at least once per year The Bank seeks outside opinions regarding the development and management of the internal control system.

Based on these objective opinions, we work to further improve the internal control system. Moreover, to reinforce the compliance system, we have established a whistle-blower system and have improved the effectiveness of the system by using an external lawyer as the point of contact.

With respect to the risk control system, we have established the Integrated Risk Management Council, the Compliance Council, and the Anti-Money Laundering Council, chaired by the President, in principle, held once in every three months, once a month, and once a month, respectively, as well as the Operational Risk Management Council chaired by the Managing Officer in charge of Risk Management Division and held once or more in every half year. At these meetings, the appropriateness of operations is reviewed and risk management is applied to minimize loss due to unforeseen circumstances.

We have also signed consultation agreements with six lawyers, who provide advice on legal matters and perform a variety of legal checks when necessary.

In response to risks associated with cyberattacks, extreme weather and natural disasters, new strain of influenza, the prolonged COVID-19 crisis and other factors, the Bank has formulated business continuity plans to prepare for each of them, anticipating possible risk events. It continues to improve its business continuity readiness including by conducting first-response drills as appropriate.

The Bank's accounts are audited by the independent auditing firm Deloitte Touche Tohmatsu LLC (as of June 30, 2021). This firm provides accurate audits on the basis of appropriate information disclosure.

Going forward, we will work to further enhance our corporate governance standards and ensure the soundness of our ethical conduct and financial position.

### Basic Policy on Strengthening Internal Control System

We are currently making efforts to build an internal control system based on the policies described below.

#### **1. System to ensure that the execution of duties by directors of the Bank and its affiliates comply with all relevant laws, ordinances, regulations, and the Bank's Articles of Incorporation**

(1) Our Basic Policy establishes the Bank's commitment to serve local communities by fulfilling its mission as a financial institution, and to seek business growth through sound practices founded on a broad and rational perspective.

(2) To implement this policy, directors and executive officers of the Bank are responsible for the establishment of various standards including the Code of Ethics and Compliance Policy, and for ensuring that business is conducted in accordance with these standards and that laws, ordinances, and the Articles of

Incorporation are adhered to. In addition, directors are responsible for steadfastly confronting any anti-social forces that pose a threat to social order and safety; thereby directors consolidate a system to sever all ties to these forces.

(3) The Bank's affiliates make best efforts to pursue legitimate and fair business practices that respond to social obligations, based on their own basic policy and management philosophy that are adequate for the nature and scale of their business. In addition, the affiliates are responsible for the establishment of the Code of Ethics and Compliance Policy to ensure that business is conducted in accordance with laws and ordinances as well as social norms.

## **2. System for storage and management of information related to the execution of duties by directors of the Bank**

To ensure efficient verification of proper business practices, regulations will be created and followed on the handling and control of information and documents related to business operations (including electronic records); adherence to these regulations will be monitored, and regulations will be revised when necessary.

In addition, a system will be established to enable directors and Audit & Supervisory Board Members to view this information and the relevant documents when necessary.

## **3. Risk management regulations and other structures related to risk of loss at the Bank and its affiliates**

(1) The Bank positions the risk management as an important duty to ensure the soundness and safety of business, and regulations related to each type of risk, including a Comprehensive Risk Management Regulation, will be established in order to manage risks associated with the business of the Bank and its affiliates in an exhaustive and comprehensive manner. Efforts will be made to appropriately improve the measurement, evaluation, and management of risk by following these regulations.

An independent third party will regularly evaluate the Bank's management of major risks, and the Bank will continually work to improve risk management level evaluations.

(2) In addition to designating one department to comprehensively manage risk, individual departments will be made specifically responsible for each category of risk, ensuring effective risk management. In addition, an organizational structure will be established, including the Integrated Risk Management Council chaired by the president and CEO and the Operational Risk Management Council chaired by the director in charge of the department responsible for comprehensive risk management. Risk management reports will be made to the Board of Directors on a regular basis, or as necessary.

(3) The following are risks to be managed at the Bank. When new risks arise, a department to handle them will be promptly established by the Board of Directors.

1) credit risk, 2) market risk, 3) liquidity risk, 4) operational risk, and 5) money laundering and terrorist financing risk, 6) other risks that could have a serious impact on the Bank's business.

(4) In addition to establishing a Risk Management Council, the Bank's affiliates will manage risks in a proper and comprehensive manner, and set up a system to report any issues related to risk management to the Bank. The Internal Audit Department of the Bank conducts auditing of the Bank's affiliates to assess their risk management.

## **4. System to ensure the efficient execution of duties by directors of the Bank and its affiliates**

(1) Duties of the Bank will be executed centered on the Basic Policy and an Action Plan. A Management Plan will be created, and guidelines based on this plan will be established for each six-month period.

(2) Progress made in implementing these plans will be reported to the Board of Directors in a timely manner, and steps will be taken in response as needed.

(3) Items that should be taken up by the Board of Directors of the Bank will be clearly stated in regulations such as the Board of Directors Regulations, and important items will be discussed as necessary by the Management Council, which comprises managing directors or above and other related personnel, to ensure that issues are sufficiently examined. In addition, Regulations on Decision-Making Authority Related to Operations will stipulate the appropriate delegation of authority to subordinates based on such factors as the importance of the operation, making the directors' execution of duties more efficient.

(4) The Bank will reinforce collaboration with its affiliates and facilitate information sharing. In addition, the management of the Bank and representatives of its affiliates will exchange opinions on a regular basis in order to resolve various issues efficiently.

(5) The Bank will establish regulations for top management, organizations, risk management and others, and provide its affiliates with necessary information in order to have them create their own systems efficiently in compliance with these regulations.

## **5. System to ensure that the execution of duties by employees of the Bank and its affiliates complies with laws, ordinances, and the Articles of Incorporation**

(1) In addition to positioning compliance with laws and ordinances as one of our most important business responsibilities and establishing regulations such as the Code of Ethics and Compliance Policy, the Bank will establish a department to provide overall control. In addition, a Compliance Council, chaired by the president and CEO, will be created, and this council will be tasked with handling compliance-related issues.

(2) In addition to establishing a Compliance Council, the Bank's affiliates will manage and operate in-house compliance system appropriately and set up a system to report any compliance violation to the Bank. The Internal Audit Department of the Bank conducts auditing of the Bank's affiliates regarding their compliance with laws, ordinances, and others.

(3) At the Bank and its affiliates, an in-house system will be created for reporting violations of laws and ordinances and other compliance-related issues, and a whistle-blower system that employs an independent lawyer to receive reports will be maintained. Efforts will be made to prevent or promptly detect problems such as violations of laws.

## **6. System to ensure appropriate operations of the corporate group, which is composed of the Bank and its affiliates**

(1) An internal auditing agreement will be concluded with the Bank's affiliates, and operations are audited by the Internal Audit Department of the Bank to ensure proper business operations by the corporate group, which is centered on the Bank. Operations at affiliates will be audited through various activities, including appointing officers or employees of the Bank as officers of affiliates and having them attend the meeting of the Board of Directors of the affiliates.

(2) The management of the Bank and representatives of its affiliates will exchange opinions on a regular basis to prevent problems such as inappropriate transactions between the Bank and its affiliates.

(3) When engaging in transactions with the Bank's affiliates and other entities, steps will be taken to verify that the terms of the transaction conform to the arms-length principle.

(4) A whistle-blower system will be established at the Bank

and all affiliates, making it possible for parties such as affiliate employees to make reports or seek advice.

(5) A system will be created to ensure the reliability of the financial reporting of the Group, centered on the Bank.

#### **7. System to report matters related to the execution of duties by directors of the Bank's affiliates to the Bank**

(1) By having officers of the Bank dispatched to its affiliates, the Bank will receive reports related to the execution of duties by directors of its affiliates at the meeting of the Board of Directors of the affiliates.

(2) The Bank will deliberate or request reports, on a regular basis or as necessary, to accurately understand business operation of its affiliates, pursuant to the Group Companies Management Regulation established by the Bank.

(3) The department undertaking overall control of the Bank's affiliates and individual departments responsible for each affiliate will monitor the status of affiliates in a timely and appropriate manner, and promptly report any matters deemed important to the management of the Bank, while taking necessary steps.

#### **8. Items related to employees whose assignment to assist Audit & Supervisory Board Members of the Bank in their duties is requested by them**

An Audit & Supervisory Board Members' Office will be created to assist the Audit & Supervisory Board Members in the performance of their duties, and at least one full-time employee will be assigned to work in that office. Upon obtaining the opinions of the Audit & Supervisory Board, decisions will be made on the positions and qualifications of employees to be assigned to engage in this work, and a roster of such employees will be created.

#### **9. Ensuring the independence of the above employees from directors and the effectiveness of instructions given to those employees**

The appointment, transfer, and evaluation of employees who assist the Audit & Supervisory Board Members in their duties will be subject to the approval of the Audit & Supervisory Board. The said employees will solely comply with instructions and orders given by the Audit & Supervisory Board Members.

#### **10. System for officers and employees of the Bank and its affiliates to report to Audit & Supervisory Board Members of the Bank and a system for other reports to Audit & Supervisory Board Members**

Officers and employees of the Bank and its affiliates and persons who received reports from them shall submit reports and provide information in response to requests from the Audit & Supervisory Board or individual Audit & Supervisory Board Members. The following are the main topics of the reports and information to be provided.

- (1) Department activities related to creating the Bank's internal control system
- (2) Activities of the Bank's affiliates
- (3) Matters that may inflict a significant loss on the Bank and its affiliates
- (4) Significant accounting policies and standards and changes to them
- (5) Content of disclosed earnings, projections, and other important disclosure materials
- (6) Serious violations of the laws and ordinances
- (7) Operation of the whistle-blower system and notifications
- (8) Circulation of documents such as draft proposals and the minutes of important conference/committee meetings
- (9) Other items deemed necessary by the Audit & Supervisory Board Members

#### **11. System to ensure that a person who made a report in accordance with the preceding paragraph does not receive unfair treatment on the grounds of making such report**

The Bank and its affiliates prohibit a dismissal or any other disadvantageous treatment of the person who made a report in accordance with the preceding paragraph on the grounds of making such report, etc. and take appropriate steps to ensure that such person will not receive unfair treatment.

#### **12. Matters related to treatment of expenses incurred in the execution of duties by Audit & Supervisory Board Members**

In the event that Audit & Supervisory Board Members made a request for reimbursement of expenses incurred in the execution of their duties, it will be granted unless the expenses are proved to be unnecessary to the execution of their duties.

#### **13. System to ensure effective audits by Audit & Supervisory Board Members**

The representative director will regularly meet and cooperate with the Audit & Supervisory Board Members to ensure the effectiveness of audits, and will regularly exchange opinions on management problems and progress in auditing to ensure high accuracy.

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## **Compliance System**

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Recognizing that the survival of financial institutions depends on trust, we put top priority on earning the firm trust of the general public.

We are further strengthening our compliance system under our 15th Medium-Term Management Plan through our policy which is designed to "promote awareness of the crucial importance of compliance among our staff."

- 1) Earn the firm trust of the general public through the maintenance of high corporate ethical standards and awareness of the importance of legal compliance;
- 2) Promote awareness of the crucial importance of compliance among our staff; and
- 3) Raise standards of compliance rigor still higher.

To further enhance the compliance system that we have built to date, we formulate and implement a compliance program each fiscal year. Specifically, all departments regularly hold study meetings on compliance, and we have implemented curriculums related to compliance for various training programs in order to boost the awareness of compliance and ingrain a compliance-oriented corporate culture.

## Organizational Structure

### Compliance Council

Chaired by the president and CEO, consisting of managing directors and the general managers from relevant divisions, the Compliance Council examines, discusses, and issues directives concerning matters of compliance.

### Compliance Office (Risk Management Division)

As the entity responsible for overseeing compliance, the Compliance Office promotes compliance programs and serves as the secretariat for the Compliance Council.

### Inspection Section (Internal Audit Division)

The section conducts audits and other investigations related to the compliance conditions in each division.

### Compliance at Each Division

Compliance officers are appointed in each of the divisions to check the day-to-day compliance of those divisions.

## Customer Protection Management System

The Bank set up a Customer Protection Management Policy in September 2007 to develop and establish a system to ensure customer protection. Under the Customer Protection Management Policy, we have clearly stated protection measures that we had taken as part of compliance and risk management. We are focusing more heavily on customer-oriented management. The purpose of the policy is to improve the protection and convenience of customers through the following initiatives:

- (i) Providing appropriate information and explanations on products and services for customers
- (ii) Responding properly to requests, consultation, inquiries and complaints from customers
- (iii) Appropriately managing customer information
- (iv) Properly managing outsourced operations
- (v) Properly managing of conflicts of interest so avoid unfair detriment to the interests of our customers

## Information Security, Management of Customer Information

In line with the top priority that we assign to ensuring the confidentiality of our customers' personal data, information security risk is addressed by the Bank's Information Security Management Rules. We have publicly announced our Declaration of Personal Information Protection (Privacy Policy).

As stipulated in the aforementioned Security Management Rules, we have also appointed a chief information officer at the Bank's headquarters and an information officer in each

department and branch. We are making every effort to educate employees about the handling procedures and to bolster their awareness of security issues so that we can ensure the maximum degree of protection for customer data in daily operations.

## Money Laundering and Terrorist Financing Risk Management Framework

### Towards a more enhanced management framework for money laundering and terrorist financing risks

There is a strong international pressure for financial institutions to prevent money laundering and terrorist financing (hereinafter, "Money Laundering, etc."), amid increasing threats of international terrorism and the internationalization and expansion of fund transfers by criminal groups and terrorists.

The Bank has placed the prevention of Money Laundering, etc. as one of its most important management issues, and will aim to further enhance such risk management by constructing an effective risk management framework.

### Organizational Structure

#### Anti-Money Laundering Council

Chaired by the president and CEO, consisting of managing directors and the general managers from relevant divisions, the Anti-Money Laundering Council reports on problematic cases relating to the prevention of Money Laundering, etc., discusses policies on necessary responses, and issues directives to the divisions in charge.

#### First Line (Business Divisions and Branches)

Fully understanding policies, procedures, and plans, etc. related to countermeasures for Money Laundering, etc., the First Line accurately implements reduction measures commensurate with the risks.

#### Second Line (Risk Management Division, Operations Administration Division)

Checks the autonomous risk management of the First Line, while concurrently providing information and answering questions.

#### Third Line (Internal Audit Division)

Regularly performs audits from an independent position regarding the effectiveness of measures to prevent Money Laundering, etc. and the proper functioning of the First and Second Lines.

### Risk-Based Approach

The risk-based approach for Money Laundering, etc. countermeasures involves identification and evaluation of Money Laundering, etc. risks as well as implementation of effective measures to reduce such risks. At the Bank, we compile a risk evaluation document regarding the risk reduction measures formulated by applying the risk-based approach, and use it as a guideline for when each of the sales division and branch conducts business. The various products and services of the Bank that we provide to our sound customers should never be abused by criminals. The Bank aims to further enhance its risk management framework towards preventing Money Laundering, etc., thereby fulfilling social responsibility.

## Risk Management

The importance of risk management has grown as the risks confronting financial institutions have become more complex and diverse. Recognizing risk management as crucial for safe and sound operations, we have established a Comprehensive Risk Management Policy and other policies and rules relating to risk management that enable an appropriate and prompt response to various types of risk.

We have established the Risk Management Division to step up our commitment in this area. We aim to further strengthen our risk management system through use of the PDCA cycle, by laying down policy (planning), creating internal rules and organizations (doing), assessing results of these measures (checking) and making improvements where needed (acting).

In addition, to ensure that our risk management mechanisms function effectively with regard to sections within the Group subject to auditing (the Bank's head office divisions, branches and consolidated affiliates), regular, planned, on-site audits of such departments are carried out by staff of the Internal Audit Division, which is independent from business operation departments. In this way the Bank verifies the effectiveness of its risk management systems.

### Comprehensive Risk

The Bank has formulated a comprehensive risk management framework by determining a Comprehensive Risk Management Policy and Rules.

The Bank's risk management does not stop at managing various risks individually, but extends a step ahead to control the total amount of risks to keep it within the range of distributable capital, which is defined as "core capital (full implementation basis) less allowance for doubtful accounts," through the risk quantification using statistical methods, thereby enforcing a comprehensive risk management aiming at ensuring soundness of management.

We adopt a flexible approach to required responses by getting the current state of such comprehensive risks checked by the Integrated Risk Management Council and Committee, which meet regularly and report directly to the Board of Directors, etc.

### Credit Risk

To appropriately adapt to changes in the credit risk in relation to assets held by the Bank, and to ensure stable profitability and maintain sound operations, we conduct management appropriately with reference to our Credit Risk Management Policies and Credit Risk Management Rules.

In order to objectively determine a borrower company's credit state and its capacity to repay loans, we perform a credit rating system in a timely manner and reflect the result of the credit rating in our credit risk management. More specifically, we endeavor to maintain a sound asset base by implementing our own assessment of loan assets and by making appropriate provision for possible loan losses and write-offs based on the credit rating system.

Meanwhile, the credit rating system enables a quantification of the credit risk, controls concentration of risk with particular borrowers or industries, and further ensures profits that are balanced by credit costs, and thereby enables the Bank to improve its credit portfolio.

Regarding examination of loan applications, we have clearly separated the sales promotion and credit screening functions and undertake strict reviews and management under a policy of screening by borrower business sector. Individual cases are screened by verifying various aspects including the use of funds, income and expenditure plans, and investment outcomes, and by carefully examining a borrower's resources and plans for repayment.

### Market Risk

For market risk, the Market Risk Management Rules have been established, which stipulates the policies for monitoring, control and mitigation of the risk, along with specific arrangements.

The Risk Management Division manages interest rate risk related to deposits and loans, as well as the risk associated with securities, derivatives and other markets. Our current positions, unrealized gains/losses and risk indicators such as BPV and VaR are measured and evaluated on a daily or monthly basis and reported to management. From the perspective of managing assets and liabilities together, we hold the monthly Integrated Risk Management Committee, forecast interest rates, stock prices and exchange rates, as a set of measures to enable an appropriate response to risk.

### Liquidity Risk

We manage liquidity risk through our Liquidity Risk Management Policies and Liquidity Risk Management Rules and regard stable cash flows as the primary objective. Moreover, we have in place a system (Liquidity Risk Contingency Plan) that can respond to a wide variety of circumstances promptly and appropriately.

### Operational Risk

We have drawn up an Operational Risk Management Policies and Operational Risk Management Rules, with separate provisions for administrative risk, system risk, legal risk, personnel risk, fixed asset risk and reputational risk. We implement necessary measures for required responses by getting the current management status of such risks checked regularly by the Operational Risk Management Council and reported to the Board of Directors. For the important categories of administrative and system risk, we have drawn up the following sub-policies and procedures.

#### **[Administrative Risk]**

We manage administrative risk through our own Administrative Risk Management Policies and Administrative Risk Management Rules. While adapting to the growing diversification and complexity of banking operations, our administration has become more rigorous in an effort to retain and strengthen the trust of our customers.

## 【System Risk】

System risk refers to the risk of incurring a loss due to computer system failure, malfunction and other errors or system flaws and other deficiencies, as well as the risk of incurring a loss due to the improper use of computers. This includes “cyber security risk” that threatens the safety of computer systems and computer networks as a result of cyber attacks. We have established a framework that swiftly responds to system failure through our Computer System Failure Action Rules and Center Failure Rules.

In regards to cyber security incidents that are increasingly becoming a threat, the Bank has set up the Computer Security Incident Response Team (CSIRT), an internal body with its

secretariat administered by the Risk Management Division and the Operations Administration Division, that is expected to stay alert in ordinary times and to promptly respond to and solve any incident.

To prepare for contingencies that cannot be dealt with using our conventional risk management mechanisms, we have compiled a Business Continuity Plan, and have taken measures that would enable us to continue major business operations even under emergency conditions.

At Juroku Bank, we recognize the importance of integrated risk management, and we will continue working to enhance the sophistication of our risk management system.

## ■ Business Continuity Plan

In response to the recent surge of risks associated with cyberattacks, extreme weather and natural disasters, new strain of influenza, the prolonged COVID-19 crisis and other factors, the Bank has formulated business continuity plans to prepare for each of them, anticipating possible risk events. It continues to improve its business continuity readiness including by conducting first-response drills.

Structure of the business continuity plan (BCP)	
Rules on Business Continuity Readiness and Management	Basic rules concerning the Bank's business continuity plan and readiness
└ Basic Plan	Provides a general concept of business continuity, the Bank's policy and other basic matters
└ Crisis Response Plan	Provides first responses commonly applicable to different risks and other basic matters
└ Large-scale Earthquake Response Plan	Plan concerning responses to anticipated earthquakes
└ Large-scale Earthquake Response Plan	(Response procedures for essential operations)
└ Large-scale Earthquake Response Plan	(Version for the so-called (“Nankai megathrust earthquakes” countermeasures) anticipated to occur in the Tokai region)
└ New Influenza Virus Response Plan	Response plan anticipating the epidemic of new strain of influenza and other diseases
└ Core System Emergency Response Plan	Response plan anticipating failures in the core system and other similar problems
└ Cyberattack Response Plan	Response plan anticipating cyberattacks
└ Contingency Plan for Liquidity Risk	Response plan anticipating actualization of liquidity risk

In regards to COVID-19, the Bank set up an Emergency Response Task Force in its early stage based on the above-mentioned New Influenza Virus Response Plan and implements the following measures to prevent the spread of infection and concurrently to continue its essential operations that are needed for supporting people's livelihood and continuing the Bank's operations.

<Examples of the Bank's business continuity and infection prevention measures>

- Working from home; staggered work hours; and splitting operations
- Partial changes in business days and hours; suspension of customer visits
- Ensuring sterilization of branches; installment of plastic shields at the counters; and social distancing between customers

## ■ Stakeholder Engagement

The Bank emphasizes engagement with all stakeholders. We have progressed from taking action “for” our stakeholders to acting “with” them.

The 15th Medium-Term Management Plan launched in April 2020 centers on running a continuous “engagement cycle.” To do so, our officers and employees are encouraged to bear in mind four basic stances in their daily work: “Let's say,” “Let's listen,” “Let's act” and “Let's think” and to proactively exchange opinions with all stakeholders.