

Corporate Governance

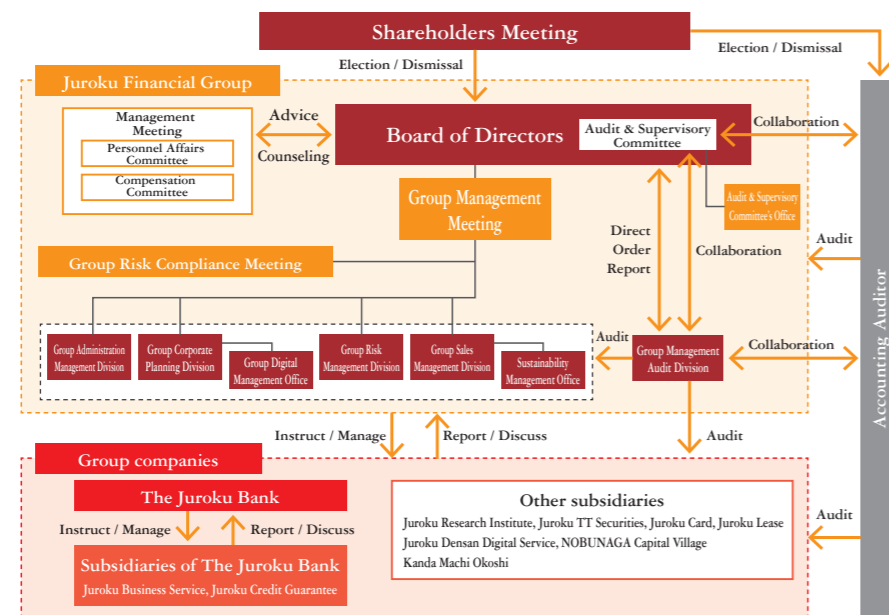
Corporate Governance System

Juroku Financial Group is a company with an Audit & Supervisory Committee, and the functions of the Board of Directors are strengthened not only in its decision-making functions, but also in its auditing and supervisory functions.

By separately electing Executive Directors and Directors who are members of the Audit & Supervisory Committee, we have enhanced the audit system of Group-wide business management and the supervision system of Executive Directors by the members of the Audit & Supervisory Committee.

In addition, we are working to further enhance our corporate governance system by monitoring the status of business execution, the status of risk management, and the compliance system of group companies, and striving to build a Group-wide business management system.

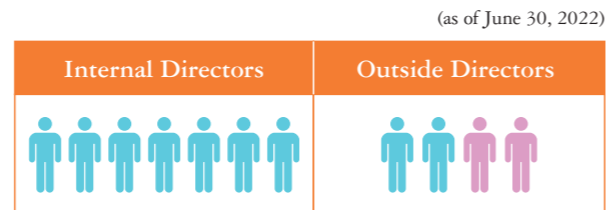
Group companies are striving for efficient business operations by preparing business plans based on Group-wide management policies, and by making prompt management decisions and speeding up business execution.



Composition of the Board of Directors

The Group strives to ensure that the Board of Directors has a well-balanced structure with diverse knowledge and expertise.

In order to enhance the objectivity and rationality of decision-making by the Board of Directors in addition to supervising management, we appoint Independent Outside Directors so that they consist of more than one-third of the total number of Directors.



Management Meeting

In order to further ensure transparency and fairness of the Board of Directors' decision-making activities, we have established the Management Advisory Board, which consists of two committees, the Personnel Affairs Committee and the Compensation Committee, as an advisory body to the Board of Directors.

Each committee is chaired by an Outside Director, and the majority of its members are Outside Directors. The Committees provide advice on the matters shown in the table on the right.

Personnel Affairs Committee	
1	Matters concerning determination of candidates for Director
2	Matters concerning selection and dismissal of Executive Directors, etc.
Compensation Committee	
1	Matters concerning compensation for Directors
2	Matters concerning evaluation of the effectiveness of the Board of Directors
3	Other important matters related to management

Evaluation of the Effectiveness of the Board of Directors

The Company has all Directors conduct a self-evaluation based on a "Questionnaire regarding Effectiveness Evaluation of the Board of Directors." After compiling results of aggregating and analyzing the contents of these self-evaluations, the Board of Directors deliberate on them following a consultation with the Management Meeting, which is an advisory body to the Board of Directors.

The following is a summary of the results of the "Overall Effectiveness Evaluation of the Board of Directors" in FY2021.

As a result of aggregating and analyzing these self-evaluations, the Board of Directors of the Company confirmed that

the effectiveness of the Board of Directors has been secured by ensuring its diversity and expertise.

We will continue with our efforts to provide timely and appropriate information for the sustainable growth of the Group and the enhancement of corporate value over the medium- to long-term. Furthermore, we will fully exercise the functions of decision-making and supervision of the Board of Directors and further enhance its effectiveness, by continuously reviewing the operation of the Board of Directors with Outside Officers to hold constructive discussions.

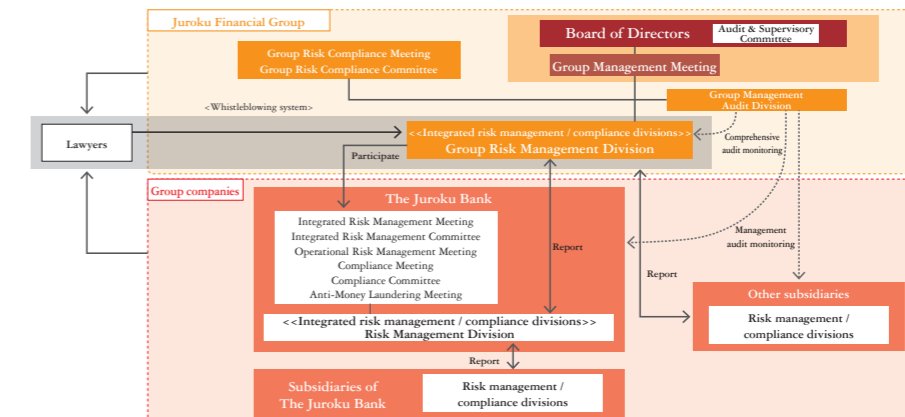
Risk Management Structure / Compliance System

Group-wide Risk Management Structure and Compliance System

We have established the Group Risk Management Division to oversee risk management and compliance, and are working to improve the risk management structure and compliance system of the Group. In addition, we have organized the Group Risk Compliance Meeting chaired by the President to grasp the

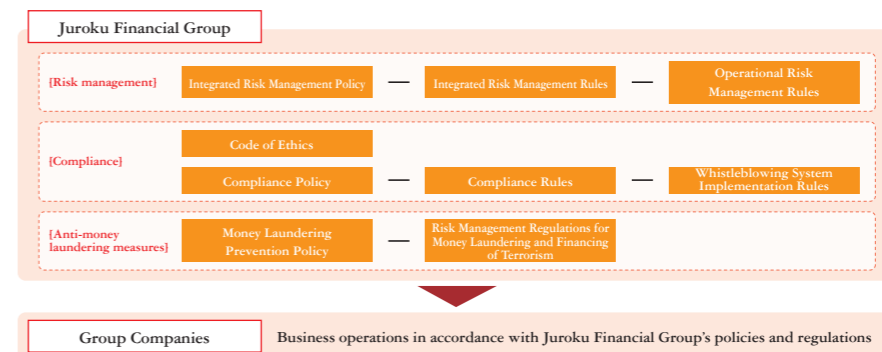
status of risk management and compliance within the Group. The Meeting holds deliberations or debates on analysis, evaluation, and improvement activities for risk management and compliance, and reports and discusses to the Board of Directors on a regular basis and on an irregular basis as necessary.

Risk management structure / compliance system



The Company positions risk management and compliance as an important duty to ensure the soundness and safety of group management, and has established policies and regulations related to risk management and compliance. Each group company has also established its own policies and regulations based on the Company's policies and regulations, and strives to conduct appropriate business.

Risk management and compliance-related policies and regulations, etc.



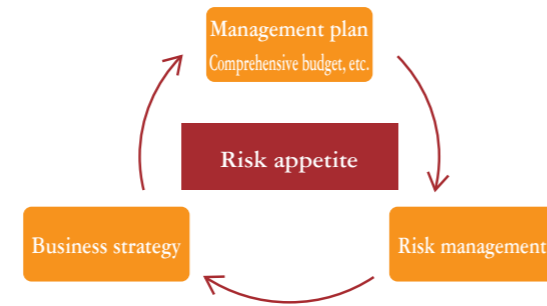
Risk management structure

Risk Appetite Framework

The Group has clarified the type and amount of risk to be taken appropriately as “risk appetite,” and introduced a “Risk Appetite Framework (RAF)” for business and risk management using the risk appetite as a starting point.

In order to achieve our “Vision” in the Group management philosophy, we seek to “optimize profits, risks and capital” through RAF management, and enable the pursuit of more profit opportunities and more appropriate risk control. By doing so, we are improving the effectiveness of our business strategies including management plans and comprehensive budgets.

Overview of the Risk Appetite Framework



Recognition of Top Risks

From the perspective of probability and degree of impact, the Group has chosen as top risks the “risk events that may have a significant impact on our financial position and business performance, such as disrupting our business strategy and reducing profitability approximately within the next year.” We are taking necessary measures in advance to control such risks, and striving to manage them in order to respond dynamically even if they manifest.

Top risks selected by the Board of Directors in March 2022 are as follows:

Risk event	Risk scenario (example)
Deterioration of the global economic and financial environment due to strengthening hegemonism	<ul style="list-style-type: none"> Deterioration of the global economy, weak demand for funds, and deterioration of the business conditions of borrowers, triggered by hegemonic behavior including the Ukraine situation, the Taiwan issue, and the U.S.-China friction Pressure on deposit and loan profit due to continued ultra-low interest rate policies Fewer profit opportunities and higher credit-related costs due to deterioration of economic conditions in our operating bases, Gifu and Aichi prefectures
Continuous inflation and interest rate policies in the USA	<ul style="list-style-type: none"> Market fluctuation risks, such as deterioration of gain (loss) on valuation of securities due to normalization of monetary policy and interest rate hikes by the Federal Reserve Board (FRB) of the U.S. (in anticipation of midterm elections this autumn, the ruling Democratic Party is putting pressure on the FRB to raise interest rates, in order to curb inflation and restore public support.)
Climate change risks	<ul style="list-style-type: none"> Deterioration of borrower performance and obsolescence of business models due to abnormal weather, climate change, delayed response to decarbonization, etc.
Impact of the spread of COVID-19	<ul style="list-style-type: none"> Prolonged stagnation of economic activity due to the continued COVID-19 pandemic Difficulty in maintaining business continuity
Large-scale disasters	<ul style="list-style-type: none"> Impact on the financial condition of the Group due to difficulty maintaining business continuity in the event of the Nankai Trough Earthquake, etc., and from the deterioration of the business performance of borrowers resulting from the ensuing turmoil in the local economy
Cyber-attacks	<ul style="list-style-type: none"> Functional failure, as well as large compensation for loss due to leakage of customer information or service suspension
Rapid progress of DX	<ul style="list-style-type: none"> Customer attrition due to further entry to other businesses, intensified competition due to the emergence of alternative services, and declining competitiveness due to delays in introducing digital services, etc.
Credit-related risks	<ul style="list-style-type: none"> Higher credit-related costs due to credit deterioration in real estate and other credit-intensive industries High credit-related costs being incurred due to deterioration of the business performance or bankruptcy of large borrowers Increasing credit-related costs resulting from the decline of regional industries due to their inability to change their business structure to adapt to the era
Personnel risks	<ul style="list-style-type: none"> Impacted sustainable growth and business strategy of the Company and workplace control confusion, resulting from accidents occurring to executive management Loss of credibility and customer attrition due to administrative sanctions such as business suspension orders by the Financial Services Agency and media reports, as a result of scandals of officers and employees Decreased productivity, difficulty in continuing professional work due to insufficient education, outflow of human resources, etc.
Inadequate response to antisocial forces and anti-money laundering measures	<ul style="list-style-type: none"> Loss of credibility due to transactions with antisocial forces Disciplinary actions such as business suspension orders, payment of surcharges, and deterioration of reputation due to failure in addressing money laundering and violations of various foreign exchange laws and regulations
Insufficient implementation of “Customer-oriented Business Operation Policy”	<ul style="list-style-type: none"> Customer attrition and administrative sanctions such as business suspension orders by the Financial Services Agency, due to inadequate customer-oriented business operations

Integrated risk management

The Group has established the “Integrated Risk Management Rules” for the purpose of ensuring the soundness of management and building an integrated risk management system.

We comprehensively track various risks with quantification using statistical methods, and control these risks so that they are within the scope of our management abilities. The status of integrated risks is managed by the Group Risk Management Division, and reported to the Group Risk Compliance Meeting and the Group Risk Compliance Committee quarterly, as well as the Board of Directors biannually, in principle, and we have a structure to flexibly implement necessary measures such as risk control.

Credit risk management

Credit risk refers to the risk of incurring losses due to the decrease or loss of asset value caused by deterioration of the financial condition of borrowers.

As a prerequisite for credit risk management, we have established a “credit rating system” which objectively evaluates the degree of credit risk on a uniform scale. In addition to monitoring the credit risk management status of group companies and the credit concentration risk of the whole Group, we also discuss countermeasures with group companies as necessary.

Market risk management

Market risk refers to the risk of incurring losses from the fluctuation of the value of assets and liabilities, as a result of changes in various market risk factors such as interest rates, foreign exchange rates, and stocks, as well as the risk of incurring losses due to fluctuations in the income generated from assets and liabilities.

Based on our integrated risk management, our consolidated subsidiaries that engage in the banking business allocate risk capital by business (deposits and loans, cross-shareholdings, securities other than cross-shareholdings, etc.) biannually. Our consolidated subsidiaries also set position management limits (maximum investment amount or holding amount), loss amount limits, and negotiation points (levels of losses for reviewing response policies). Their divisions in charge of conducting market transactions flexibly and efficiently within these set risk limits.

Liquidity risk management

Liquidity risk refers to funding risk and market liquidity risk. Funding risk refers to the risk of difficulty in securing the necessary funds due to mismatches between investment and funding periods or unexpected outflows of funds, as well as the risk of incurring losses due to being forced to raise funds at significantly higher interest rates than usual. Market liquidity risk refers to the risk of incurring losses due to market disturbances making it impossible to trade in the market, or being forced to trade at prices that are significantly more disadvantageous than usual. We monitor the status of funding risk and liquidity risk as well as matters that affect funding, and we have established a structure to respond quickly and appropriately even under unforeseen circumstances.

Operational risks

Operational risk refers to the risk of incurring losses due to inappropriate business processes, activities of officers and employees, or systems, or external events. Each group company has established “Operational Risk Management Rules,” and classifies and manages operational risks as administrative risk, system risk, legal risk, personnel risk, fixed asset risk, and reputational risk.

For administrative and system risks, which are important categories among operational risks, we have drawn up the following sub-policies and procedures.

Administrative risk

Administrative risk refers to the risk of incurring losses because of officers or employees neglecting to perform accurate administrative work, or causing accidents, committing fraud, etc. The Group manages administrative risk through our own 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 losses 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.

The Group has established “System Risk Management Rules” in order to deal with these system risks. By ensuring the effectiveness of our system risk management system, we strive to maintain sound and appropriate group operations, and strengthen our cyber security management system.

In response to cyber security incidents that are increasingly becoming a threat, each group company has set up a CSIRT (Computer Security Incident Response Team). The CSIRT Secretariat of The Juroku Bank collaborates with the rest of the Group to stay alert in ordinary times and to promptly respond to and solve any incident.

Crisis management system

The Group places the highest priority on ensuring the safety of human lives in the event of a crisis such as a major disaster or an infectious disease epidemic. In order to continue business operations necessary to maintain the functions of the financial system, in addition to the risk management systems described above, we have established the “Rules on Business Continuity Readiness and Management” and have established an appropriate crisis management system.