

# Advanced Governance

## VISION

Advancing governance and disclosing information appropriately to establish a transparent management structure

## Key Items

- Third-party involvement in assessing the effectiveness of the Board of Directors
- Third-party involvement in assessing the advancement of the internal auditing system
- Initial response training for emergency preparedness
- Dialogue with investors

## Message From the Outside Director



Director (Outside)  
Yasushi Ueda

### (1) What approaches and perspectives are required for corporate governance?

The environments surrounding regional financial institutions are undergoing rapid change and the needs of local communities are becoming increasingly diverse. While working closely with local economies as before, we must propose new ideas and approaches to break through the sense of stagnation caused by local population decline and aging, and in turn support the sustainable development of our local communities. To do so, it is essential that we ensure higher levels of flexibility and transparency in our corporate governance.

### (2) Based on your own experience, what issues can you see with governance at the Company?

To allow us to continue proposing new ideas and approaches, in addition to using our past successes, it is important that we create an environment in which all officers and employees can adopt new mindsets and engage in free and open discussions. We must also create an organizational culture in which employees can speak up when something is wrong. The same goes for governance. By picking up on the Group's real issues, in particular in terms of relationships with local communities, and engaging in even more lively discussions, I believe we will be able to come up with more constructive and practical management strategies.

### (3) What is the role of an Outside Director as the Company seeks to achieve further development?

To contribute to the Company's sound development moving forward, as Outside Directors we must use the expertise and experience we have gained to date to offer advice to executive management from an external and objective standpoint. With instability in the financial environment and the prominence of AI, in order to maintain and improve our relationships with local communities and customers in an ever-changing social and living environment, Outside Directors must ensure that the Company's management is steadfast and unswerving. Another important role of ours is to present opportunities to reexamine corporate cultures and organizational customs from a new viewpoint. Through these activities, we will do everything in our power to ensure the Company can achieve sustainable growth as a member of its local communities.

## Advancing Corporate Governance

Please refer to pages 63-66 for details.

### Basic concept of corporate governance

The Company and its subsidiaries (hereinafter the "Group") shall, under the Group Management Philosophy that guides all officers and employees, serve our customers and the local community as an entity essential to their welfare based on our hitherto earned tradition and trust, thereby contributing to materializing sustainable growth and affluent future. Meanwhile, we have formulated a Long-Term Vision that will serve as a compass for future group management in the belief that it is essential to envision the desirable shape of our future based on the Group Management Philosophy and to proactively reform ourselves toward materializing such future.

#### [Group Management Philosophy]

- Mission: Achieving growth and prosperity for our customers and the local community
- Vision: To be a comprehensive financial group that builds a future with local communities and achieves sustainable growth with local economies
- Values: Trust & Integrity, Creation & Innovation, Diversity & Inclusion

#### [Long-Term Vision "16Vision-10"] April 2023 to March 2033 (ten years)

- Theme: Staying Ahead of the Curve to Always Serve the Region
- Driven by our Purpose of "achieving growth and prosperity for our customers and the local community," we aim to contribute to the local community ("customers," "officers and employees," and "shareholders") by achieving Sustainability (i.e., creating social value) and Growth (i.e., creating economic value).

We believe that ensuring trust in our soundness in all aspects is an essential requirement for the management of the Group, which is centered on financial institutions. The foundation for this is the organizational and management structure and systems of the entire Group, including the Company. We regard the appropriate development of these systems and the enhancement of corporate governance as one of our most important management priorities.

#### [Basic concept of corporate governance]

Please refer to our website.  
<https://www.16fg.co.jp/company/governance/>  
(in Japanese only)



## Strengthening Risk Management and Compliance

Please refer to pages 69-72 for details.

### Basic concept of risk management

We have formulated the Integrated Risk Management Policy, Integrated Risk Management Rules, and other stipulations to ensure the soundness and appropriateness of Group operations. These conditions locate risks associated with Group operations, define the organizational frameworks for risk management, and present specific measures for the identification, assessment, monitoring, control, and reduction of said risks.

### Basic concept of compliance

We have formulated the group-wide Ethics Policy and the Compliance Policy to ensure high business ethics and thorough permeation of the spirit of legal compliance. We have positioned the acquisition of unshakable confidence from society as one of our most important management challenges, and are therefore striving to enhance our compliance framework.

## Achieving Stakeholder Engagement

Please refer to pages 73-76 for details.

As part of our Group Management Philosophy, we have set forth the Engagement Cycle as our Code of Conduct. Through this cycle, we value engagement with a wide range of stakeholders including customers, local communities, officers and employees, shareholders, and investors.

### Recognition of top risks

From the perspective of probability and degree of impact, the Board of Directors has chosen as top risks for the Group 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 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.

In addition, all employees are regularly kept informed on the top risks through meetings and other means.

#### Risk event

- Intensified competition in the market environment where interest-bearing financing has become the reality after decades of absence
- Political and geopolitical risks
- Inadequate response to antisocial forces and anti-money laundering measures
- Personnel and compliance risks
- System failure risks
- Natural disaster risks
- Recession and disturbance in the financial market
- Cyber-attacks, rapid progress of DX
- Increase in credit-related expenses
- Climate change risks

## Cybersecurity

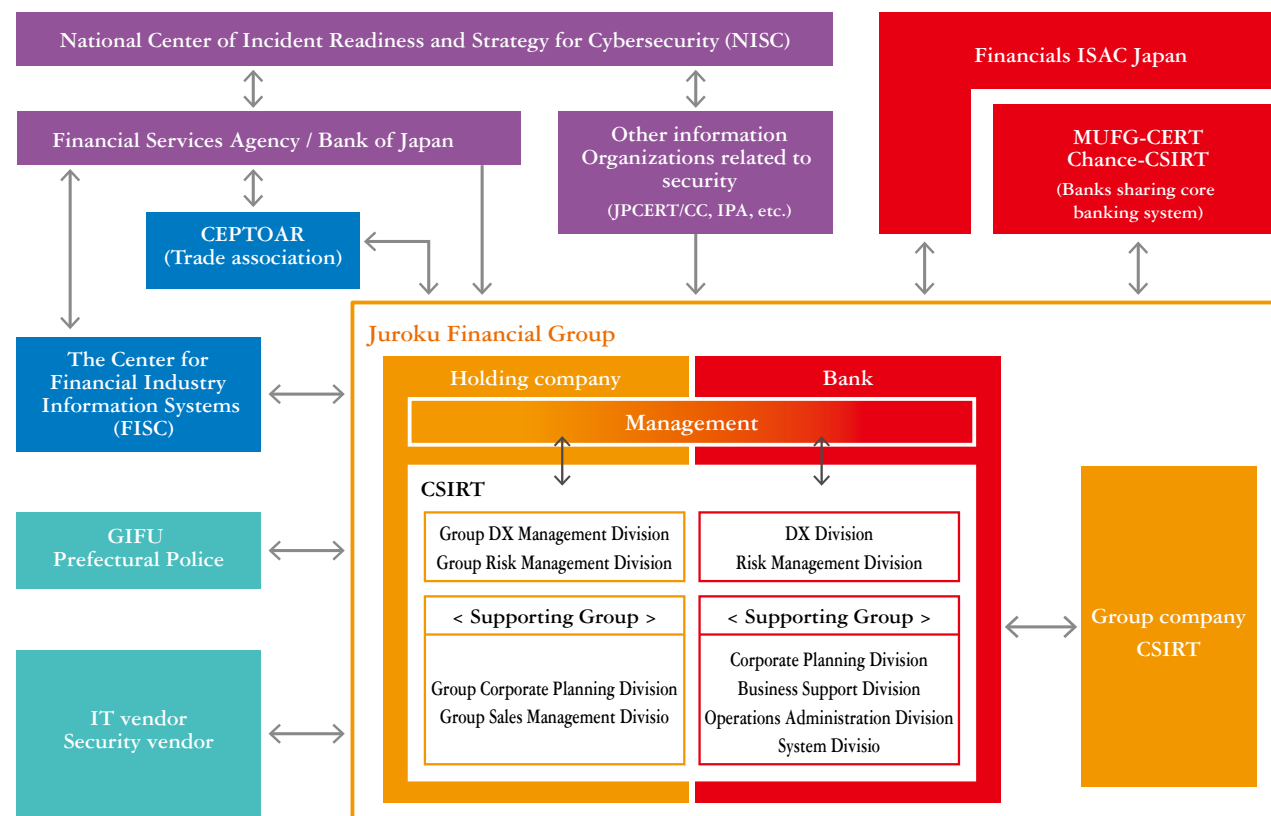
### Governance system

In response to the increasing threat of sophisticated and advanced cyber-attacks, we have positioned cyber-attacks as one of the Group's top risks, and established the Information Security Management Rules and Information System Management Rules to prevent any cybersecurity incidents and prevent any damage from spreading. In doing so, we are working to strengthen cybersecurity management system.

Through timely and appropriate reports to the Board of Directors and Management Council, we are creating a governance structure that facilitates rational management decisions in response to environmental change. Moreover, through proactive contributions from management, we are promoting effective and efficient cybersecurity strategies and ensuring daily protection against cyber-attacks.

### Cybersecurity management system

We have established a Computer Security Incident Response Team (CSIRT), with the Group DX Management Division and Group Risk Management Division functioning as the secretariat as a cybersecurity incident response team, and are collaborating with Group companies. Mainly through the CSIRT, we respond to emergency incidents, offer education and awareness programs in times of normality, and collect and analyze information on potential threats.



### Sharing of threat information and cooperative initiatives

Since November 2017, we have engaged in cooperative cybersecurity-related initiatives alongside MUFG-CERT, the security incident response team of Mitsubishi UFJ Financial Group, Inc., such as exchange of personnel, dispatch of trainees, and the sharing of threat information with banks joining Chance-CSIRT, response team of regional banks jointly using the Chance core banking system. In addition, by sharing information through Financials ISAC Japan, which shares and analyzes cybersecurity-related information from Japan's financial institutions and promotes collaborative activities to improve cyber safety, we are working to improve security across the entire financial industry.

### Education and awareness programs for Group officers and employees

To improve digital literacy with cyber-attacks, we continue to offer education and awareness programs for all Group employees. This includes suspicious email training (more than twice a year), e-learning (more than twice a year), self-assessments of security action (around four times a year), and awareness-raising activities (as necessary).

We are also working to develop human resources with specialist expertise in the field by offering self-development qualification acquisition subsidy for those who passed Information Technology Engineers Examination and utilizing the internal expert system.

Moreover, we host cyber incident response training twice a year, with approximately 50 individuals including officers in charge, Group employees, and external vendors attending each session. The sessions use blind scenarios, in which attendees are not made aware of content in advance and engage in discussions on the spot, scenarios in which Group companies suffer ransomware attacks, and various other scenarios to ensure appropriate response to diverse cyber-attack techniques.



Incident response training

### Initiatives for cybersecurity

#### Threat information analysis, security surveillance

To ensure that customers can use the Group's services in a safe and secure manner, we are reinforcing our cybersecurity measures through thorough vulnerability countermeasures, multilayer defense systems, analyses of threat trends, and detection and monitoring of abnormal activity.

Moreover, we also have various surveillance systems in place, including a security operation center that is managed 24 hours a day, 365 days a year by a specialist external vendor.

#### External audits and cybersecurity sophistication measures

To date, we have undergone various external audits including assessments based on the Cybersecurity Framework, a set of international guidelines issued by the US National Institute of Standards and Technology (NIST), and penetration testing, which involves simulated cyberattacks by a security vendor. We have also reinforced and advanced our initiatives to respond to any issues uncovered through the audits. In October 2024, the Financial Services Agency announced the Guidelines for Cybersecurity in the Financial Sector, and we have since been engaged in efforts to comply with these guidelines.

#### Risk assessments, cloud service management

When introducing new systems, we conduct advance reviews of whether said systems comply with the Group's standards using checklists according to levels of importance that are based on the safety standards from the Center for Financial Industry Information Systems (FISC).

For cloud services used by the Group, we conduct assessments of compliance with Group's standards both at the time of introduction and regularly thereafter. Moreover, to lessen the burden on contractors, on occasion we use services offering risk assessments from external experts.

#### Vulnerability Assessment

To regularly check for unintended omissions or improper configurations in our public systems, we have introduced tools and services for automatic and highly frequent vulnerability assessments. Most frequently tested systems are assessed for vulnerability on a weekly basis. We also make sure to link any vulnerabilities or other findings to thorough improvements.

### System risk management

As damage to information systems could have an impact on a broad range of operations, we have implemented various damage prevention measures to maintain their stable operation. These include double-layer system infrastructure and the installation of disaster countermeasure systems that use data centers in multiple locations. In addition, through the creation of contingency plans and training that simulates said damage, we are ensuring thorough preparations for unforeseen circumstances.

## Business Continuity Planning

In the event of unforeseen circumstances such as earthquakes, wind and flood damage, or large-scale system failures, our foremost priority is ensuring the safety of customers, officers and employees, and their families. Our basic policy is to then sustain local economies by providing essential financial services as soon as possible, maintaining The Juroku Bank's payment functions, and minimizing any negative impact on financial systems.

A framework is in place for emergencies, or when it is forecast that an emergency will occur, under which we quickly set up an Emergency Response Headquarters and create a system for the establishment of countermeasures and for the quick provision of instructions to sales branches.

## Response to Cross-Shareholdings

### <Policy concerning cross-shareholdings>

The Group's basic policy is to reduce its cross-shareholdings, taking into full account capital efficiency, so that the associated risks do not become excessive in relation to the Group's financial soundness. If it is determined that such cross-shareholdings contribute to the medium- to long-term enhancement of the corporate value of the Group and its business partners, rather than pursuing only short-term profits as a regional financial institution group, the Company may hold such shares, and the Board of Directors shall periodically review the purpose and economic rationality for such holdings.

Based on this approach, the Group set a target for reducing cross-shareholdings from April 2023 and has been working to reduce holdings through continuous dialogue with the issuers whose shares it holds. From November 2024, the Company has been further reducing its cross-shareholdings based on the following reduction targets.

- (1) The ratio of the value of cross-shareholdings on the balance sheet (including deemed holdings) to consolidated net assets shall be less than 20% by the end of March 2025.
- (2) The Company aims to reduce the level of (1) to less than 15% by the end of March 2028, the final year of the Medium-Term Management Plan.

In the event that a business partner that holds the Company's shares as cross-shareholdings expresses an intention to sell the shares, etc., the Company will, in principle, respect such intention without creating any obstacles such as suggesting a reduction in transactions with the Group.

### < Criteria for exercising voting rights >

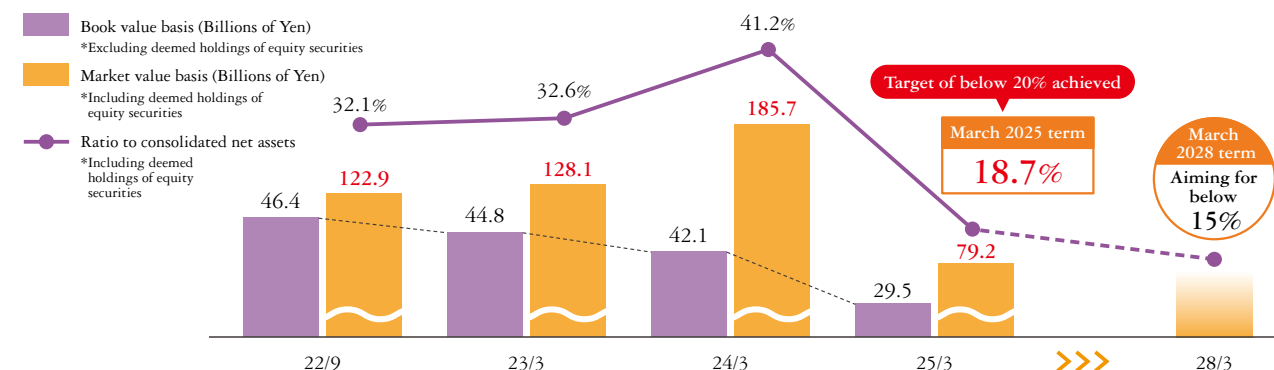
With respect to the criteria for exercising voting rights for cross-shareholdings, the Group shall exercise its voting rights on proposals submitted by issuers after comprehensively considering the likelihood of medium- to long-term enhancement of the issuer's corporate value and the consistency with the purpose of the Group's holdings. When exercising voting rights, if there are concerns about the content of a proposal or a possibility that it may harm shareholder interests, the Company shall determine its approval or disapproval based on dialogue with the issuing company.

### < Verification of rationality of holdings >

In line with the level of risk in holding listed shares held as cross-shareholdings, we examine whether the purpose of the shareholding is being fulfilled as well as economic rationality of such holding.

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|---|--|
| Considerations when examining significance of cross-shareholdings | <ul style="list-style-type: none"> <li>Business transactions with the Group</li> <li>Degree of local contribution</li> <li>Industry superiority, collaborative relationship, etc.</li> </ul>                     |
| Verification of economic rationality                              | In line with the level of risk in holding shares in each company, we examine whether income from transactions with the Group, including from dividend payments, exceeds cost, to determine economic rationality. |

### ● Trends in cross-shareholdings (book value basis / market value basis)

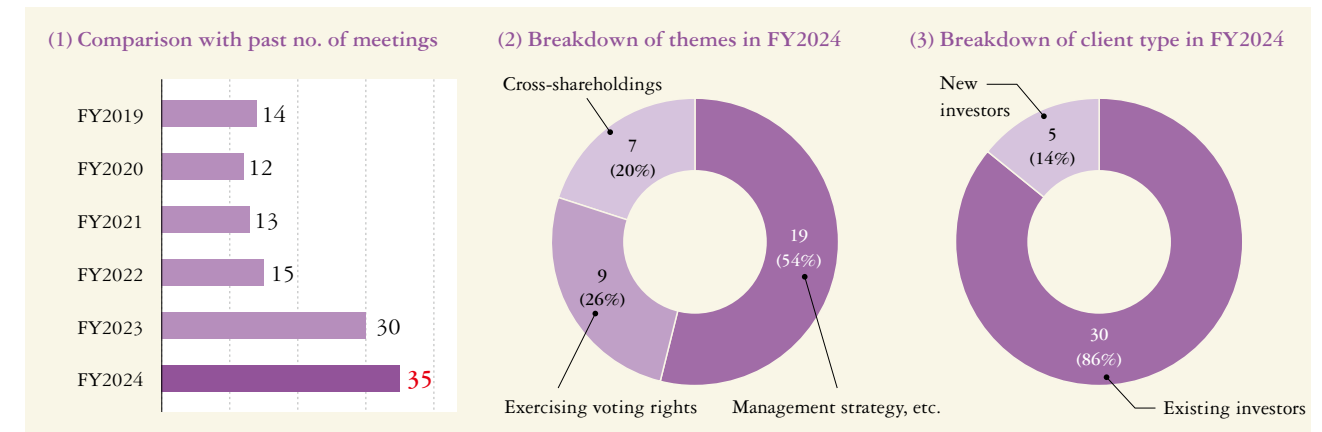


## Dialogue With Investors

We strive to ensure information disclosure to further understanding of the Group's strategies, operations, and financial conditions among shareholders and investors so that they can make appropriate judgements on the soundness of Group management. In FY2024, we provided the following opportunities for dialogue with our shareholders and investors.

| Nature of activity   | Results  | Explainer   | Content   |
|--|----------|---|---|
| Financial results briefing for institutional investors (briefings on interim and full-year results for FY2024) | 2 times  | President, Director and Executive Officer, General Manager of Group Corporate Planning Division | Held both in-person and online<br>[December 2024: 37 participants in person, 44 online]<br>[May 2025: 44 participants in person, 52 online] |
| Company briefing for individual investors  | Once     | President, Director and Executive Officer, General Manager of Group Corporate Planning Division | Held in-person<br>[February 2025: 70 participants]  |
| Small meeting  | Once     | President, Director and Executive Officer, General Manager of Group Corporate Planning Division | Held online<br>[3 Institutional investors]  |
| One-on-one meeting   | 6 times  | General Manager of Group Corporate Planning Division  | Held in-person<br>[Japanese investor: 6 times, overseas investor: 0]  |
|  | 28 times | General Manager of Group Corporate Planning Division  | Held both in-person and online<br>[Japanese investor: 23, overseas investor 5]  |

### Breakdown of individual meetings in FY2024 (small meetings and one-on-one meetings)



Requirements and other opinions gained through these meetings are reported to the Board of Directors and management as necessary. In FY2024, we implemented the following measures in response to feedback.

| Shareholder/investor requests       | Our response  |
|-------------------------------------|---|
| Enhance shareholder returns         | <ul style="list-style-type: none"> <li>Implemented share buybacks for the fourth consecutive term, and increased dividend for the sixth consecutive term (total payout ratio: 44.1%, dividend payout ratio: 31.1%)</li> </ul>   |
| Reduce cross-shareholdings          | <ul style="list-style-type: none"> <li>Made changes to the reduction policy of cross-shareholdings in November 2024 <ul style="list-style-type: none"> <li>Changed from book value basis to market value basis</li> <li>Aim to reduce the ratio to consolidated net assets to less than 20% by March 31, 2025</li> <li>Aim to reduce the ratio to less than 15% by March 31, 2028, the final year of Medium-Term Management Plan</li> </ul> </li> <li>Achieved one of the targets as the ratio to consolidated net assets was 18.7% at March 31, 2025.</li> </ul> |
| Strengthen governance               | <ul style="list-style-type: none"> <li>Improved ratio of Independent Outside Directors among Directors to 40% on June 20, 2025</li> </ul>   |
| Promote females to Director         | <ul style="list-style-type: none"> <li>Promoted a female career employee to the position of Director and Managing Executive Officer on June 20, 2025, a first for The Juroku Bank. Improved ratio of female Directors at Juroku Financial Group to 30%.</li> </ul>  |
| Engage in climate change            | <ul style="list-style-type: none"> <li>Set long-term targets for the reduction of GHG emissions (Scope 3 Category 15) for investment and loan recipients</li> <li>Implemented engagement activities, such as decarbonization consulting for local companies, to help achieve a decarbonized society</li> </ul>  |
| Enhance information disclosure      | <ul style="list-style-type: none"> <li>Issued Securities Report earlier than other regional banks (eight days before General Meeting of Shareholders)</li> </ul>  |
| Enhance dialogues with shareholders | <ul style="list-style-type: none"> <li>Hosted first company briefing for individual investors in February 2025</li> <li>Sent application to Tokyo Stock Exchange in December 2024 to receive contact from institutional investors using its investor dialogue support tool. The number of meeting requests from new investors has since increased.</li> </ul>   |