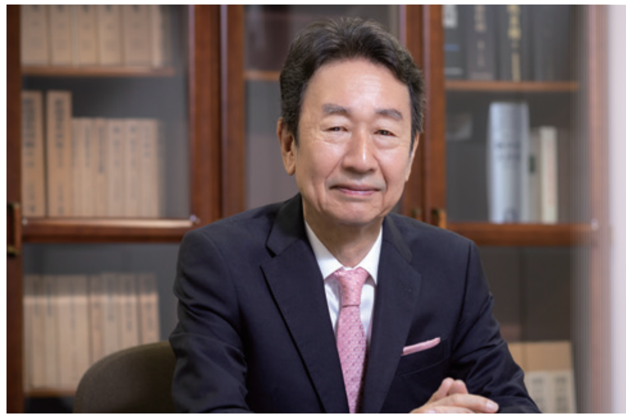
Advanced Governance

Messages From the Outside Directors (Audit & Supervisory Committee Members)



Building a management foundation that supports sound and bold risk-taking by management, grounded in stronger preventive legal practices and a social perspective

Shinji Ishihara
Director (Audit & Supervisory Committee Member, Outside)
(Attorney-at-law)

"Offensive governance" that supports sound and sustainable growth

I believe that the essence of corporate governance lies not merely in establishing a system of controls to prevent misconduct, but in building a robust management foundation that supports sound and sustainable corporate growth (enhancement of corporate value). In today's rapidly changing business environment, simply following precedent will not lead to sustainable growth. In addition to appropriately monitoring and supervising business execution, the Board of Directors is increasingly expected to engage in constructive discussions on medium- to long-term growth strategies.

In particular, for a financial institution group rooted in a region facing low birthrates and aging populations, as well as population declines, it is vital to pursue both the development of the regional economy and improved profitability over the medium to long term. I firmly believe that, to support management in actively taking risks toward achieving these goals while appropriately managing and assessing whether those risks are reasonable and appropriate, it is essential to continuously enhance the effectiveness of the Board of Directors and incorporate a broad range of external knowledge and perspectives into management.

Legal and compliance functions as vital management resources

Legal and compliance functions are sometimes viewed negatively as constraints on corporate activities, but I see them instead as vital management resources that support the enhancement of corporate value. For Juroku Financial Group, a regional comprehensive financial services group, our most important asset is unquestionably the credibility and trust placed in us by society and our stakeholders. To preserve and further strengthen this valuable asset, it is essential to go beyond mere compliance with laws and regulations and foster a corporate culture grounded in high ethical standards and the "16FG Spirit" throughout the Group.

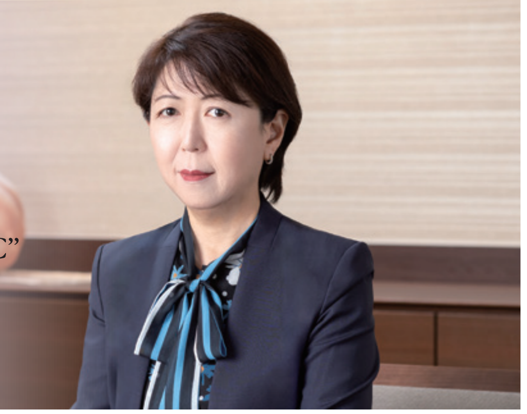
As Group management continues to advance, it is increasingly important for Group companies to work closely together to establish a robust governance framework. The risks we face are becoming ever more sophisticated and complex, ranging from anti-money laundering, personal information protection and cybersecurity to new legal issues arising from the use of generative AI. In light of these changes in the environment, it is of course necessary to have systems in place to respond after problems arise. However, it is even more important to establish and strengthen a preventive legal function that identifies risks at an early stage and prevents losses before they occur. In this respect, I expect the recently introduced Chief Officer System to effectively strengthen governance across the Group.

Offering recommendations from an independent position with a social perspective

We often see instances in society where what is considered normal within a company is viewed very differently by the outside world. The role expected of us as Outside Directors (Audit & Supervisory Committee Members) is to maintain complete independence from the company, help ensure sound and transparent management, and offer constructive recommendations from the perspective of enhancing corporate value over the medium to long term.

Drawing on my professional knowledge and experience as a lawyer, I make a point of offering objective opinions on legal risks and compliance issues. At the same time, I will rigorously assess the legality and appropriateness of management decisions and actively monitor and oversee the development and operation of internal control and risk management systems. Going forward, I will continue to engage in constructive dialogue with management and other relevant parties and do my utmost to support Juroku Financial Group's sustainable growth and its contribution to the local community.

Speaking frankly from the shareholder perspective, without simply going along with the prevailing view. Toward governance that encourages appropriate risk-taking with a focus on "cost of capital" and "ROIC"



Satoe Tsuge
Director (Audit & Supervisory Committee Member, Outside)
(Certified Public Accountant)

Addressing regional issues and optimizing the business portfolio

Since the introduction of the Corporate Governance Code, companies have increasingly been expected to pursue not only "defensive governance," but also "offensive governance" that encourages decisive management decisions and growth investments aimed at sustainably enhancing corporate value. This requires governance functions that encourage appropriate
risk-taking, allocate management resources from a long-term perspective and ensure the steady execution of business portfolio strategies.

Juroku Financial Group is currently working to address regional issues through a diverse range of businesses that leverage the Group's comprehensive strengths. While these efforts are steadily producing results, I believe the Board of Directors needs to engage in even more in-depth discussions on how best to allocate limited management resources, including by asking whether the current business portfolio remains appropriate or needs to be reviewed. Drawing on my expertise as a Certified Public Accountant, I will actively provide the advice and support needed to achieve sustainable value creation.

Advancing "cost-of-capital management" from a finance and accounting perspective

The Company has set out its ten-year Long-Term Vision "16Vision-10," and its 2nd Medium-Term Management Plan, both of which are currently progressing extremely well. I believe management has made highly appropriate decisions to date, responding to changes in the macroeconomic environment, including shifts in social conditions and policy rate hikes, and announcing upward revisions to numerical targets.

For "offensive governance" going forward, it will be essential not only to continue pursuing profitability and capital efficiency, but also to further embed the increasingly important concept of "cost of capital" in management. The Company has already implemented various measures to improve ROE, but I believe we now need to go a step further and deepen management with a focus on ROIC (return on invested capital), which enables us to more precisely measure the earnings capacity and capital efficiency of each business. I intend to lead discussions at the Board of Directors with a view to further strengthening management decision-making based on ROIC, taking optimal capital allocation into account, as well as a highly transparent disclosure framework that addresses the needs of investors.

Management decisions and supervisory responsibilities in a world of positive interest rates

As an Outside Director (Audit & Supervisory Committee Member), I always strive to maintain an independent, third-party perspective, speak frankly without simply going along with the prevailing view, and express the opinions necessary for the Company's sustainable growth from the perspective of shareholders and investors.

As the Japanese economy enters a full-fledged world of positive interest rates, the regional banking industry is facing a major wave of management integrations and industry restructuring as banks seek to ensure their survival. For the Company to continue developing amid an era of such dramatic change, we must not only accelerate digitalization and DX and expand non-interest income, but also remain firmly committed to our fundamental role as a regional bank of contributing to the development of the regional economy. As social conditions change rapidly, I expect that we will increasingly face situations requiring critical management decisions. From my position as an Outside Director, I will rigorously oversee whether such decisions truly contribute to the Company's future and development and whether the process of the decision-making is sound.

I also believe it is important to communicate these Board discussions and processes through highly transparent disclosure, taking the perspective of shareholders. I will continue to fulfill my responsibilities to help the Group enhance corporate value over the medium to long term and achieve sustainable growth.

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

Advancing Corporate Governance

Please refer to pages 95-98 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 Policy on 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 101-104 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.

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

- Intensifying competition for attracting deposits
- Recession and disturbance in the financial market
- Escalation of geopolitical risks
- Rapid progress of generative AI and DX
- Population decline, declining birthrate and aging populations
- Compliance risks
- Threat of financial crime
- Cyber-attacks and system failures risks
- Climate change risks
- Increasing severity of natural disasters

Achieving Stakeholders Engagement

Please refer to pages 105-110 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.

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 as cross-shareholdings, we examine whether the purpose of the shareholding is being fulfilled as well as economic rationality of such holding.

Considerations when examining significance of cross-shareholdings

- Business transactions with the Group
- Degree of local contribution
- Industry superiority, collaborative relationship, etc.

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)