

Corporate Governance

Basic Philosophy

Based on our corporate philosophy, to ensure the unshakeable trust of our stockholders, customers, employees and other stakeholders we believe it is vital to raise enterprise value and ensure a more sound and transparent management system, while remaining mindful of our social responsibilities as a regional bank. To meet these responsibilities, we will reinforce and enhance our efforts at corporate governance, which we consider one of our most important management priorities.

Through corporate governance appropriate to the Bank, we seek to achieve sustainable growth and enhance enterprise value over the medium to long term. To this end, we have formulated and publicized our Corporate Governance Guide Line, which outlines our fundamental perspectives and frameworks on corporate governance.

Internal Control Systems

- The Board of Directors' granting of voting rights to directors on auditing and the Audit and Supervisory Committee members that include multiple outside directors is expected to enhance the auditing and supervisory functions, as well as corporate governance. At the same time, we believe this delegation of authority will contribute to swifter decision-making and heightened management efficiency. To achieve these aims, we have adopted the system of a "company with an Audit and Supervisory Committee."
- The Bank has also separated the management decisionmaking and supervisory functions from business execution, thereby strengthening the Board of Directors' decisionmaking function. To further enhance corporate governance, we have introduced an executive officer system.
- In principle, the Board of Directors meets once a month to decide on important matters stipulated in law and the Articles

of Incorporation, as well as to make important decisions related to management policy and management strategy.

The Chairman, who chairs the Board of Directors, is in a supervisory position and has no business execution authority.

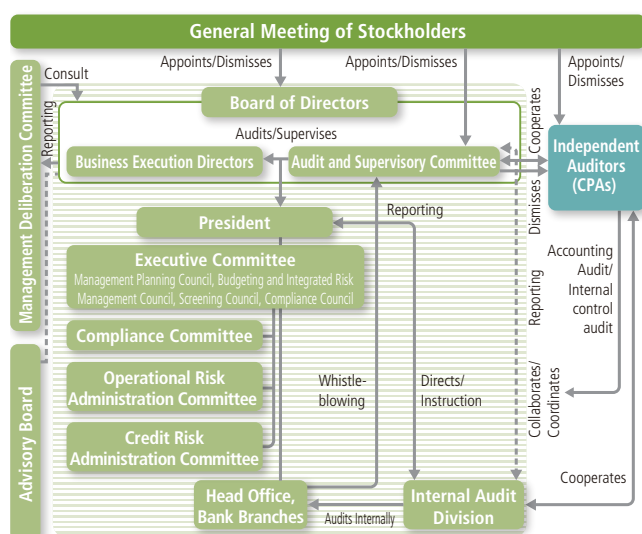
- In principle, the Audit and Supervisory Committee meets at least once each month. In accordance with the law, Articles of Incorporation and Audit and Supervisory Committee Regulations, this committee, together with the Board of Directors and the Chairman, provides a supervisory function and also audits the execution of business by directors.
- In principle, the Executive Committee, consisting of the President, Deputy President, Senior Managing Directors and Managing Directors, meets once a week to discuss important issues affecting all areas of operations, based on the fundamental policies decided upon by the Board of Directors. The Executive Committee comprises four councils, according to the content of matters to be discussed: the Management Planning Council, the Budgeting and Integrated Risk Management Council, the Screening Council and the Compliance Council. The Chairman and standing members of Audit and Supervisory Committee attend the Executive Committee, where they provide appropriate statements and advice.

The Bank established the Management Deliberation Committee, comprising the Bank's representative directors and the Audit and Supervisory Committee members, to deliberate director nominations and compensation and other important matters.

The Management Deliberation Committee, which is positioned as an advisory body to the Board of Directors, is composed of a majority of members who are independent outside directors.

- In an effort to develop and enhance a structure for legal observance and risk management, we have established the Compliance Committee (secretariat: the Compliance Division; held monthly) chaired by the director in charge of the Compliance Division, as well as the Operational Risk Administration Committee (secretariat: the Risk Management Division; held at least quarterly) and the Credit Risk Management Committee (secretariat: the Risk Management Division; held at least quarterly), both of which are chaired by the director in charge of the Risk Management Division.
- The Bank holds a semi-annual meeting of the Advisory Board (secretariat: the General Planning Division) chaired by the president. To ensure the management transparency and objectivity of the Group, further strengthen the management base and contribute to the local community, we are introducing external perspectives regarding the Group's management strategies and governance.
- The Group Chief Officer System* has been introduced, and under the overall supervision of the Group CEO, Group Chief Officers are assigned as persons in charge of key areas in order to promote unified and strategic initiatives across the Group, thereby building an integrated Group management control structure.

Business Executive Functions, Oversight and Internal Controls



* Currently, the following Group Chief Officers have been assigned.

- Group Chief Executive Officer (Group CEO)
- Group Chief Operating Officer (Group COO)
- Group Chief Strategy Officer (Group CSO)
- Group Chief Information Officer (Group CIO)
- Group Chief Risk Officer (Group CRO)
- Group Chief Business Officer (Group CBO)

Compliance

As an institution with a public profile and social responsibilities, the Bank regards a good compliance record as indispensable for deepening the trust and support of our customers, shareholders and the communities we serve. We ensure not only that all our employees observe all laws, ordinances and regulations in their duties, but also meet the highest ethical standards.

Compliance Organizations

We established a Compliance Council chaired by the President. This committee deliberates matters relating to compliance, and seeks to foster a corporate culture in which compliance-related information is shared by all employees from the branch level to top management.

At all head office and branch business departments, we have appointed compliance officers, who assess progress in compliance-related matters and organize training and awareness-raising activities such as study groups.

The Compliance Division, working closely with the Compliance Committee and compliance officers, integrates collection and management of compliance-related information.

Risk Management

Basic Philosophy

In its daily business operations, a bank is exposed to credit risks, market risks and other risks. These risks are growing in diversity and complexity as deregulation progresses and the business of banking grows ever more complex. Therefore, finding ways of appropriately managing risk has become a vital challenge for a bank.

On the other hand, for a bank, risk-taking is essential for generation of revenue. Only by assuming a reasonable level of risk, it is possible to ensure acceptable earnings growth. Accordingly, the bank sets reasonable profit targets after factoring in all conceivable risks, and takes every precaution to manage risk. Iyo Bank's management treats risk management as a priority issue.

Each fiscal year, the Board of Directors compiles risk management policies, and, based on these policies, takes steps to strengthen risk management and improve the quality of risk management.

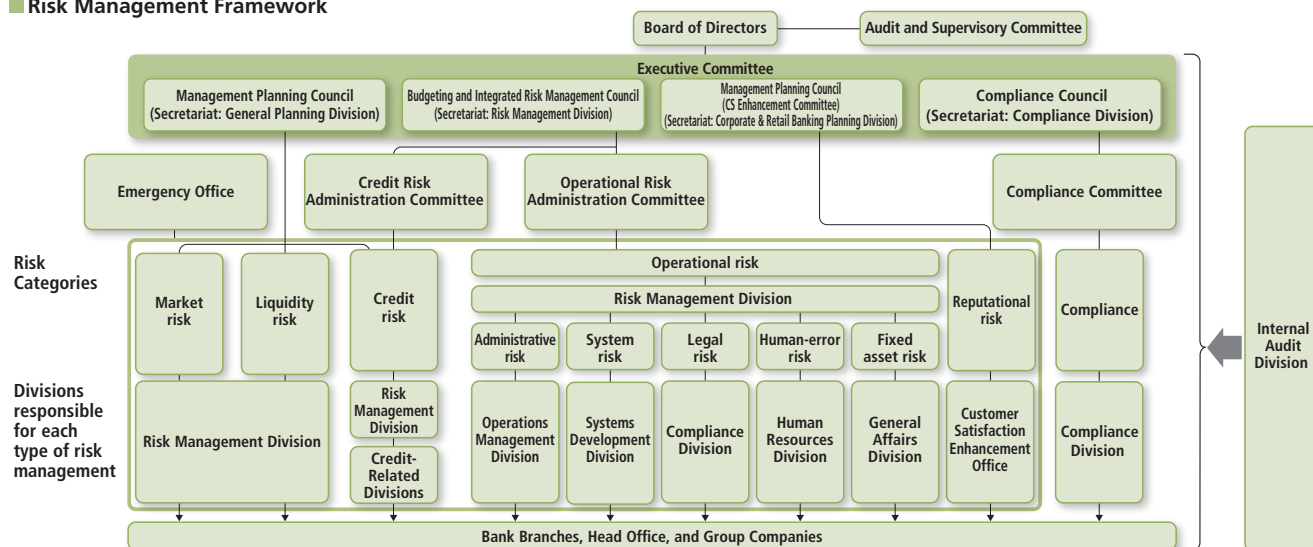
Risk Management Framework

The Bank's risk management framework has four main pillars:

1. Legal observance under the Compliance Committee
2. Managing revenue-generating risk assets under the ALM Committee
3. The Credit Risk Administration Committee undertakes risk management that focuses on curbing credit risk
4. Management of operational risk to minimize administrative and system risk, under the Operational Risk Administration Committee

The Bank's risk exposure is assessed by the ALM committee by quantifying market and credit risk, and optimal fund management and procurement structures are put in place to assure stable earnings over the medium and long term.

■ Risk Management Framework



Additionally, the Credit Risk Administration Committee works to manage credit risk, design and evaluate frameworks for the Internal Rating System, and resolve issues concerning Basel Regulations.

At the same time, the Operational Risk Administration Committee is taking measures to refine operational risk management through organization-wide discussion and monitoring regarding important topics arising from reviews of actual operational risk. With regard to administrative risk, system risk, legal risk, human-error risk, and fixed asset risk, which together constitute operational risk, organization-wide responses include establishment of offices for each category of risk, and rigorous risk management. At the same time, the Risk Management Division is responsible for coordination of risk management carried out by the departments in charge of each category of risk.

In addition, the Group CRO is assigned to supervise risk management of the Group as a whole.

Health and Productivity Management Initiatives

Based on the recognition that it is the employees who support the sustainable growth of any company, the Director of Human Resources, appointed as the person in charge of health management, has made a Declaration of Health and Productivity Management. In addition to the promotion of work-life balance and work style reforms, we are actively developing measures to maintain and improve employee health. These measures include support for raising employee awareness of health and the promotion of mental health care. In 2019, it became compulsory for members of the corporate health insurance scheme aged 40 and above to undergo a comprehensive medical checkup. In April 2020, as a population approach to health management needs to raise employees' health awareness, we started lending wearable devices to all executives and employees wishing to use them to visualize the number of steps they take, heart rate, calories consumed, sleep, and other lifestyle habits. Additionally, the health management system we introduced as a measure to strengthen our high-risk approach allows employees to verify their health check results and consult with public health nurses at any time using their smartphones.

We are also working to maintain and improve the health of people in the community by offering business loan products for clients who are striving to promote good health among their employees.